

## China's Economic Update: Downgrade 2H23 and 2024 forecasts

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# Executive summary

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- **2023 growth target “around 5%” at the NPC; our latest forecast at 4.8%**
- **Post-reopening recovery is bumpy and uneven**
  - Solid recovery in 1Q at 10.4%q/q saar, but loss of momentum in 2Q at -0.6%q/q saar
  - Full-year 2023 growth forecast: downward revision to 4.8%/y/y (real terms); 4.1%/y/y (nominal terms)
  - Quarterly profile: 10.4% / -0.6% / 4.1% / 4.5%q/q saar in the four quarters, respectively
  - Growth drivers: consumption and investment to contribute 3.4%pts and 1.6%, net exports to drag 0.3%pt
- **Uneven recovery; notable near-term headwinds**
  - Uneven recovery: services vs. production, catering / jewelry sales vs. other consumption, policy tailwind sectors (e.g., NEV) vs. other sectors, public vs. private investment
  - Double-dip in the housing market is the new baseline, with weak land sales and new home starts, potential spillover to shadow bank risks and LGFV stress
  - A key policy challenge is weakness in private-sector confidence (corporates, households, homebuyers).
  - External sector headwinds
- **Policy easing started in June, with more to come, but no bazooka-like stimulus**
  - Fiscal: policy bank support; acceleration in special local government bond issuance in Aug-Sep; central government may allow provincial governments to use remaining room from local government debt ceiling to mitigate local government debt pressure
  - Monetary: 15bp 1y MLF rate cut and 10bp 7d reverse repo rate cut in August, followed by 10bp 1y LPR cut but no change in 5y LPR; expecting 25bp RRR cut in 3Q, plus structural monetary policy instruments
  - Housing: policy relaxation in coming weeks, e.g., mortgage policy and home purchase restrictions
  - Tolerance for flexible CNY movements

# China economic outlook

**Table: China economic indicators**

	Average			
	2016-20	2021	2022	2023f
Real GDP, % change	5.7	8.1	3.0	4.8
Consumption <sup>1</sup>	2.9	5.3	1.0	3.4
Investment <sup>1</sup>	2.5	1.1	1.5	1.6
Net trade <sup>1</sup>	0.2	1.7	0.5	-0.3
Consumer prices, %oya	2.2	0.9	2.0	0.4
% Dec/Dec	2.1	1.5	1.8	0.6
Government balance, % of GDP	-3.0	-3.1	-2.8	-3.1
Merchandise trade balance (US\$ bn)	451	554	685	650
Exports	2,301	3,220	3,364	3,214
Imports	1,851	2,666	2,679	2,564
Current account balance	156	317	418	257
% of GDP	1.2	1.8	2.3	1.4
International reserves, (US\$ bn)	3,129	3,271	3,081	3,191

1. Contribution to growth of GDP.

Source: NBS; J.P. Morgan forecasts

**We forecast full-year growth at 4.8% for 2023, but nominal growth only 4.1%**

**Deflation risk: GDP deflator, PPI. Low CPI inflation**

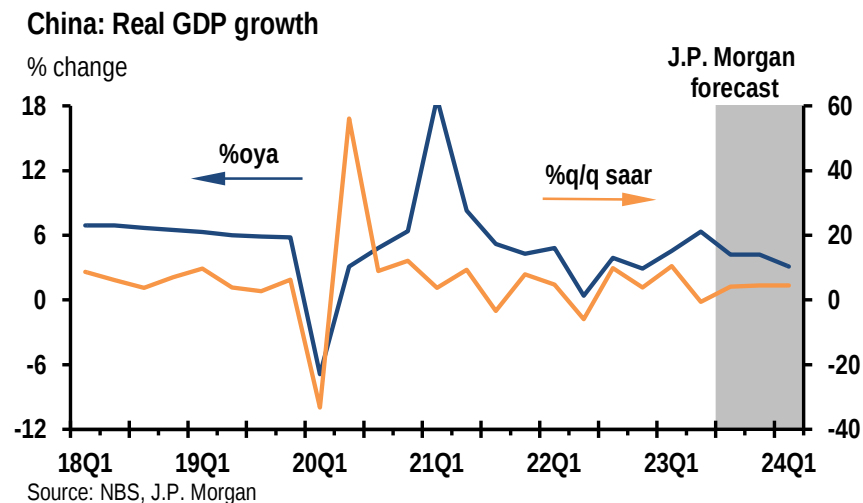
**We estimate augmented deficit at 12.9% of GDP for 2022 (1.9%pts higher than 2021), which will fall by 1.3% to 11.7% of GDP in 2023**

**Net exports will turn from a lift factor to a drag factor in 2023. We estimate current account surplus at 1.4% of GDP in 2023.**

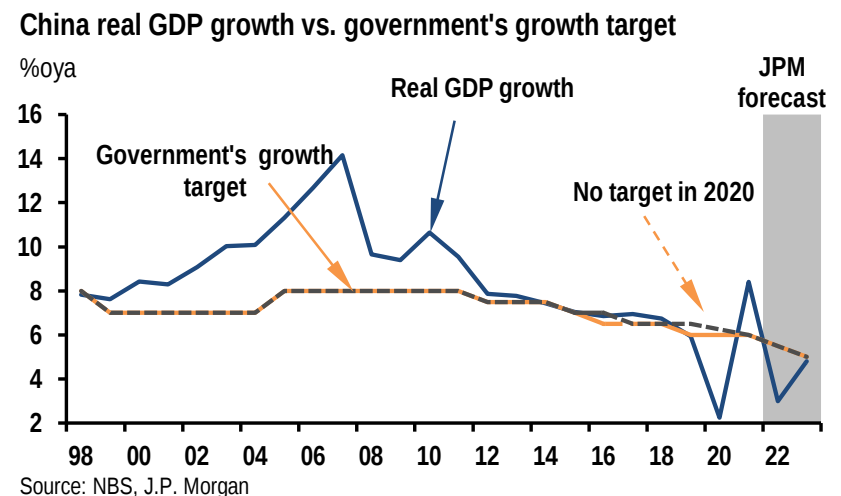
# China economic outlook

- **2023 growth target: “around 5%”**
- Policy pivot in November 2022 contributed to 1Q23 recovery, but followed by big loss of momentum in 2Q
- Near-term headwinds: housing activities slowed down again; weak demand (domestically and externally); weak confidence and private investment; deflation risk; youth unemployment
- Full-year 2023 growth forecast is 4.8%/y/y (real term); nominal GDP growth will likely slow to 4.1%

## Growth forecasts



## Growth target

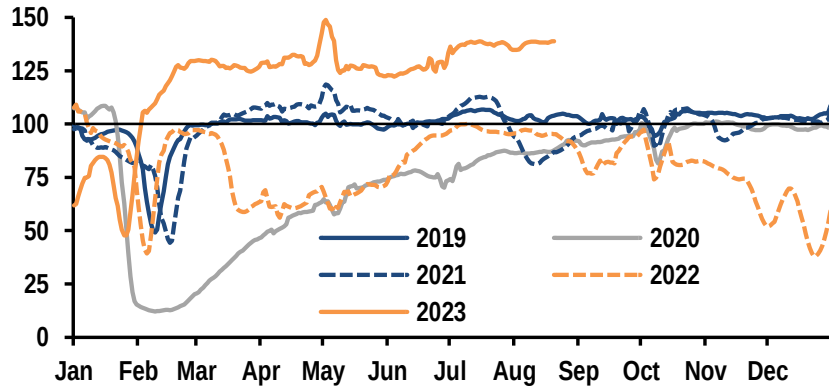


# Reopening theme

## Solid mobility recovery

### Subway traffic index (29 cities)

Index, GDP weighted, 7dma

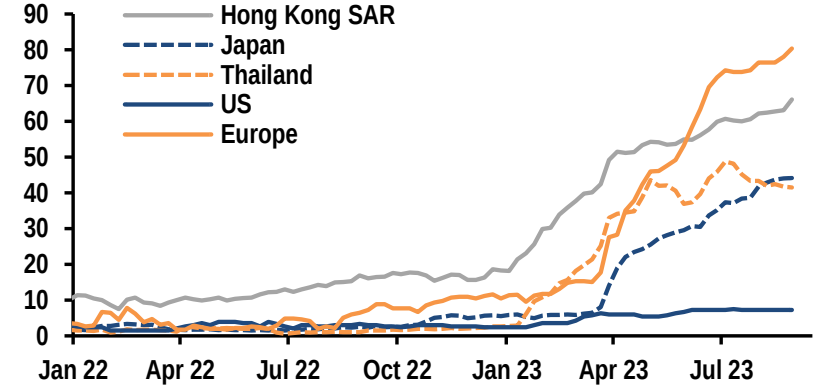


Source: Wind, J.P. Morgan; The indexation base is 2019 average.

## International flights

### China's scheduled flights to overseas destinations

% of 2019 avg

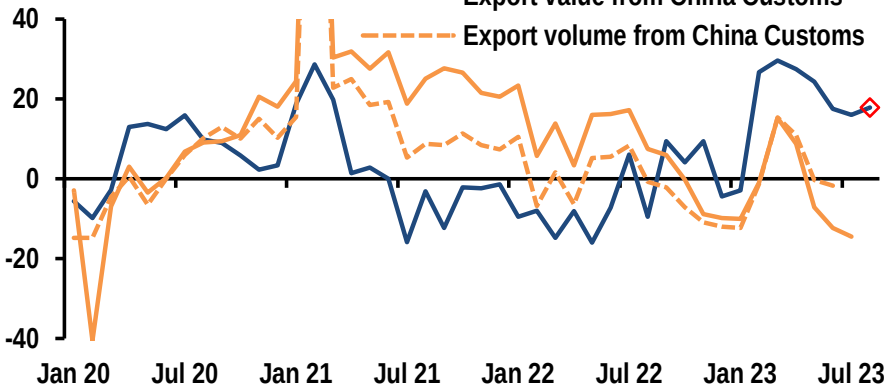


Source: OAG Schedules Analyzer, J.P. Morgan

## Deadweight tonnage of departing ships

### China exports

%oya

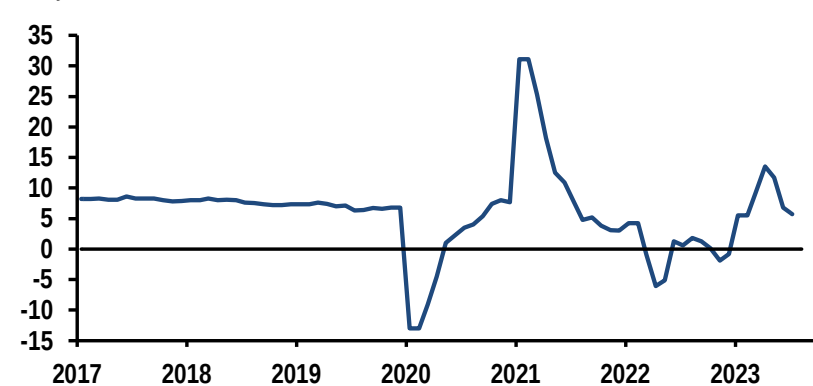


Source: Elane Shipping Statistics, China Customs, J.P. Morgan; Month-to-date tracking for Aug 2

## Service production index

### China: Service production index

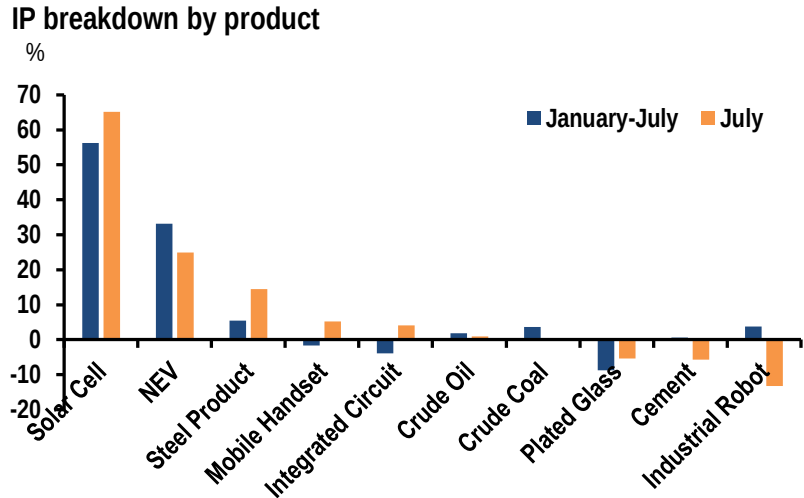
%oya



Source: NBS, J.P. Morgan

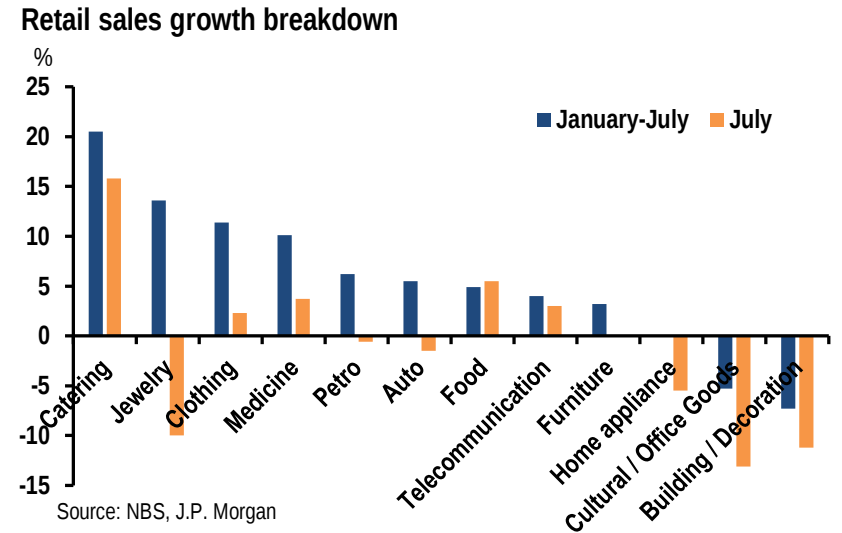
# Post-reopening recovery is divergent

## IP breakdown by product



Source: NBS, J.P. Morgan

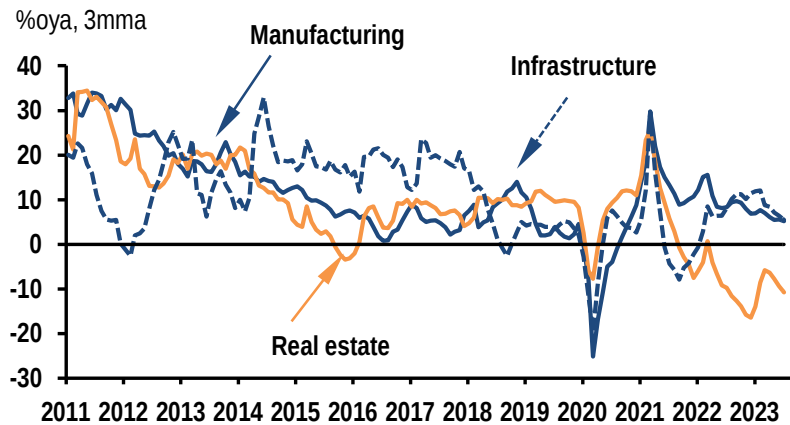
## Retail sales breakdown by component



Source: NBS, J.P. Morgan

## FAI in breakdown

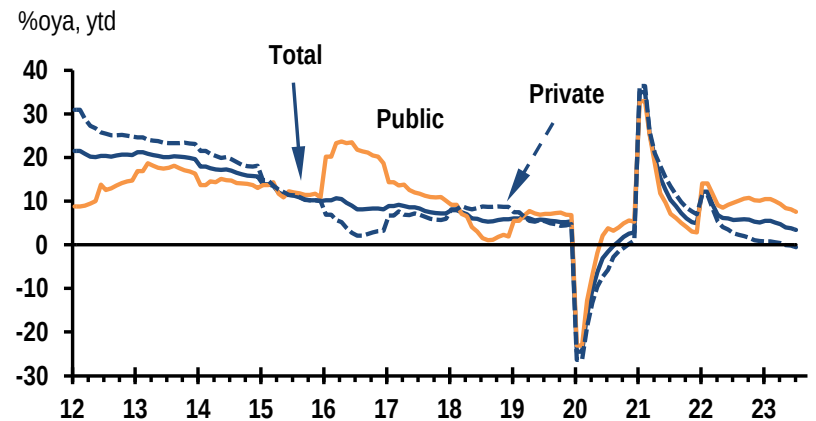
### FAI growth by industry



Source: NBS, J.P. Morgan

## Public vs. private investment

### FAI growth: Public vs private sectors

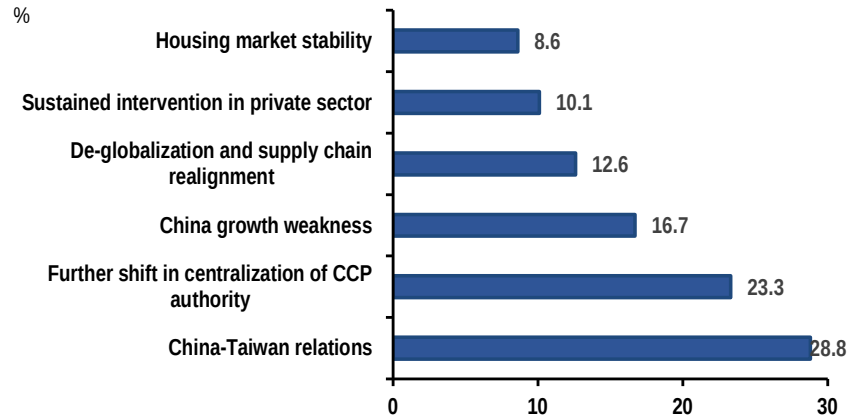


Source: NBS, J.P. Morgan

# Market concerns

## Top concerns about China

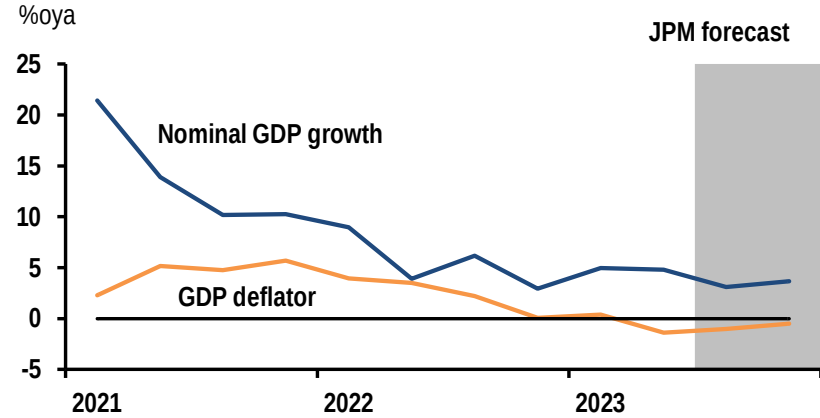
Which issues on China concerns you the most?



Source: J.P. Morgan Strategic Research. Survey on April 17, 2023.

## Macro: Nominal GDP matters

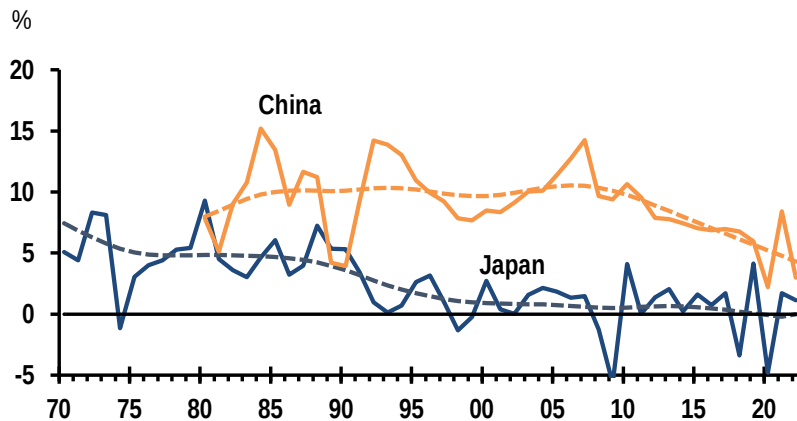
Nominal GDP and GDP deflator



Source: NBS, J.P. Morgan

## Japanification?

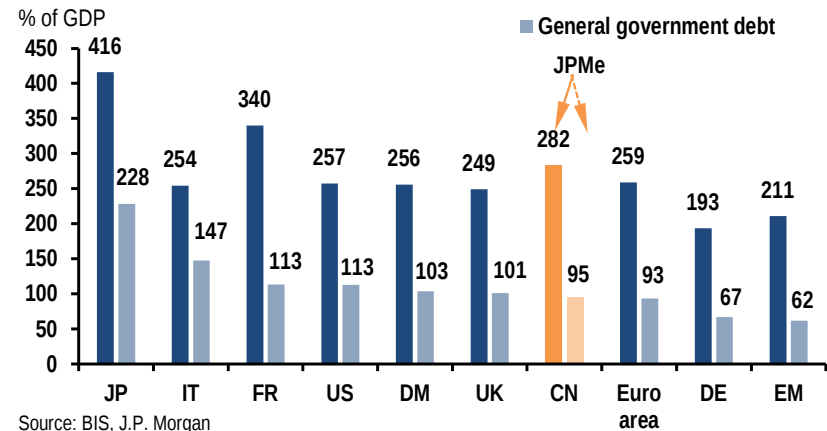
Real GDP growth



Source: CEIC, J.P. Morgan. Note: Dotted lines refer to HP-filtered trends.

## LGFV, debt problem and financial stability

Total and government debt



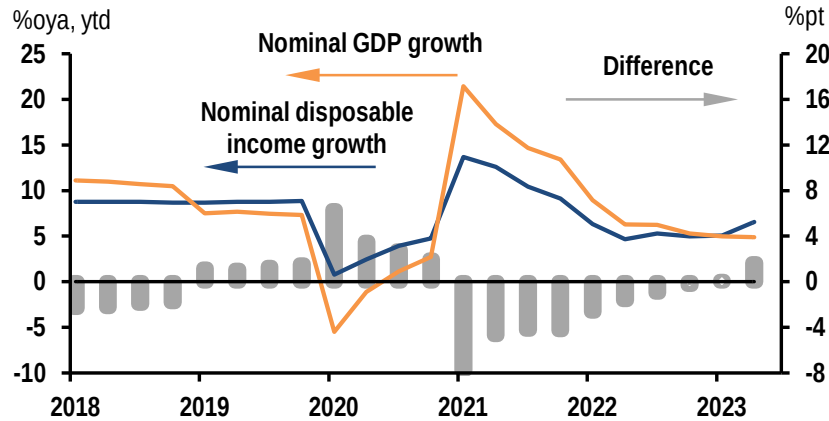
Source: BIS, J.P. Morgan

Note: JPM estimates for China as of 4Q22, and government debt includes central and local government debt and LGFV debt; BIS estimates for other economies as of 3Q22.

# Consumption and services

## Household income recovery

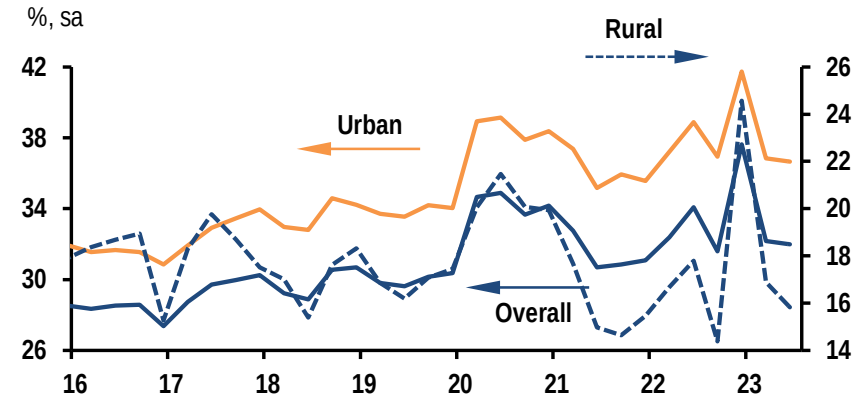
### GDP vs. income growth



Source: NBS, J.P. Morgan

## Excess saving: divergence between urban and rural households

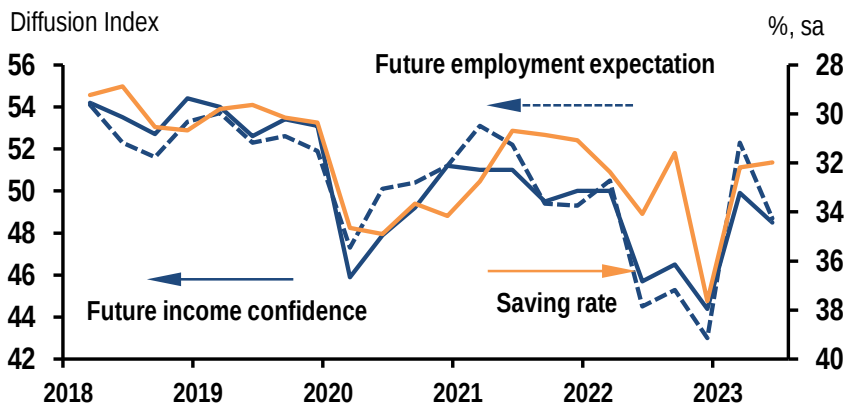
### Saving rate



Source: NBS, J.P. Morgan

## Consumer confidence declined in 2Q

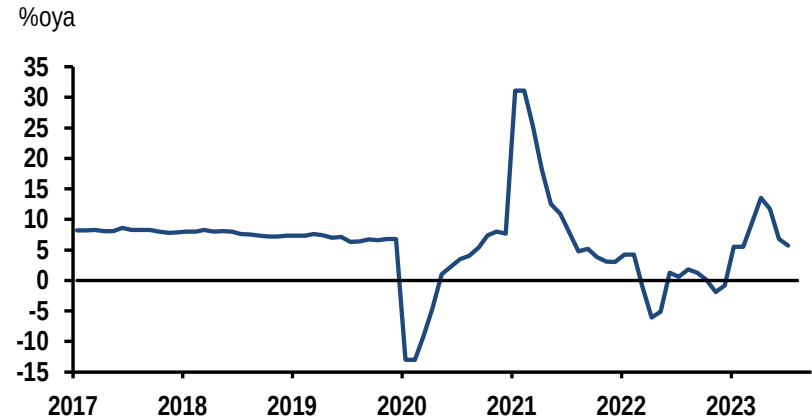
### PBOC depositor survey and saving rate



Source: PBOC, NBS, J.P. Morgan

## Service production index

### China: Service production index



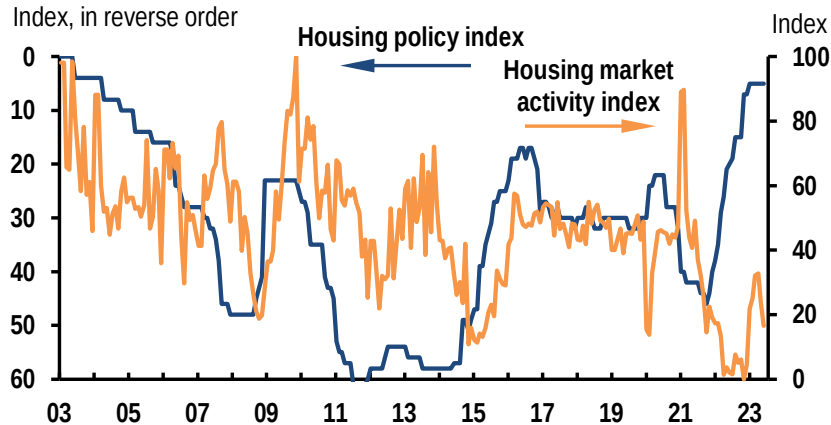
Source: NBS, J.P. Morgan



# Investment: double-dip in the housing market

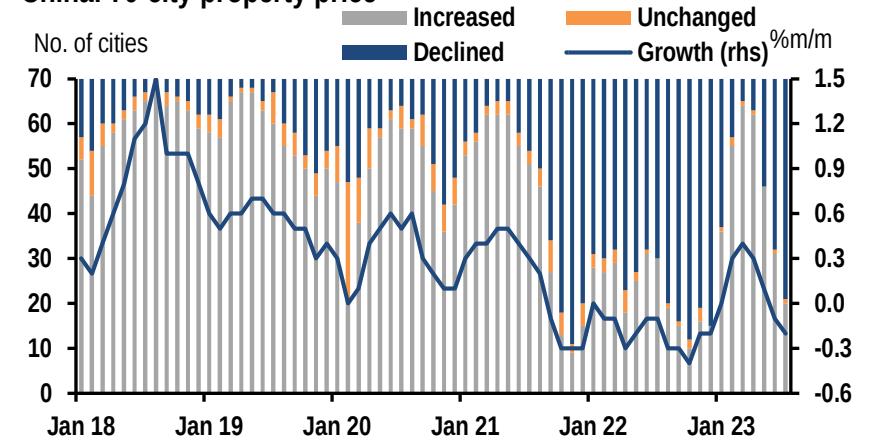
## Housing market

### Housing policy and housing market activity



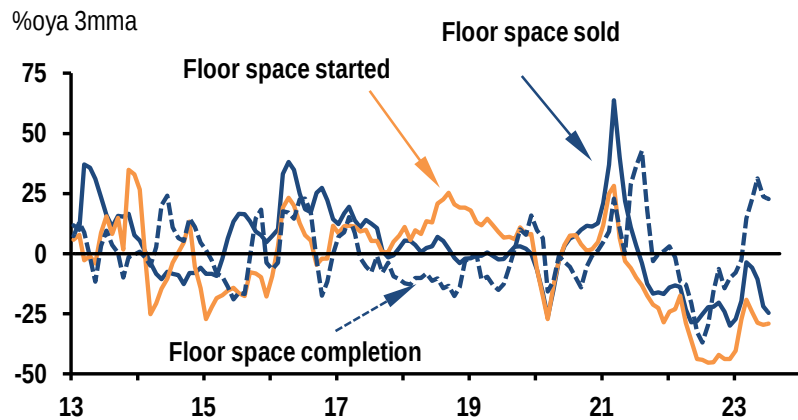
## Home price

### China: 70-city property price



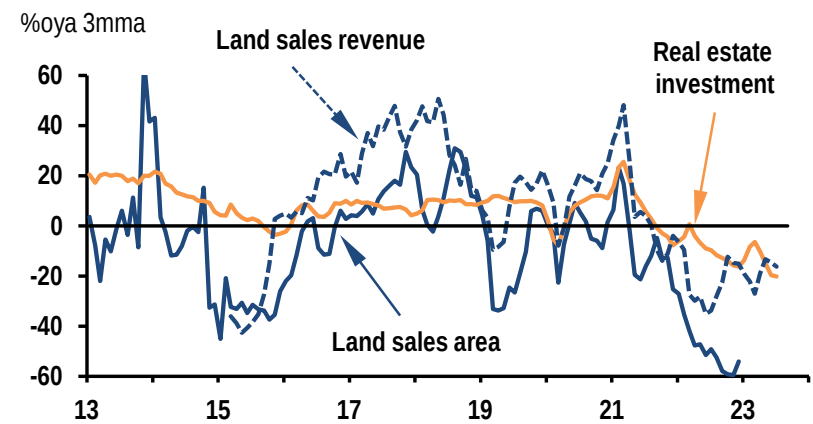
## Housing transaction / completion

### Real estate market activity



## Land sales still weak

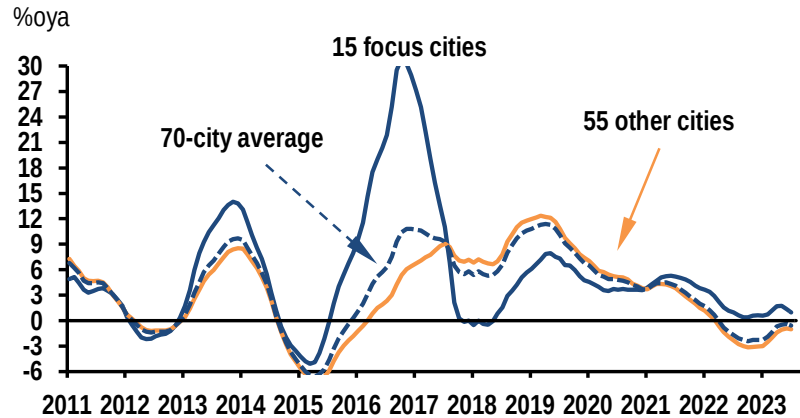
### Housing activity



# Housing market: double-dip is the new baseline

## Cross-city divergence

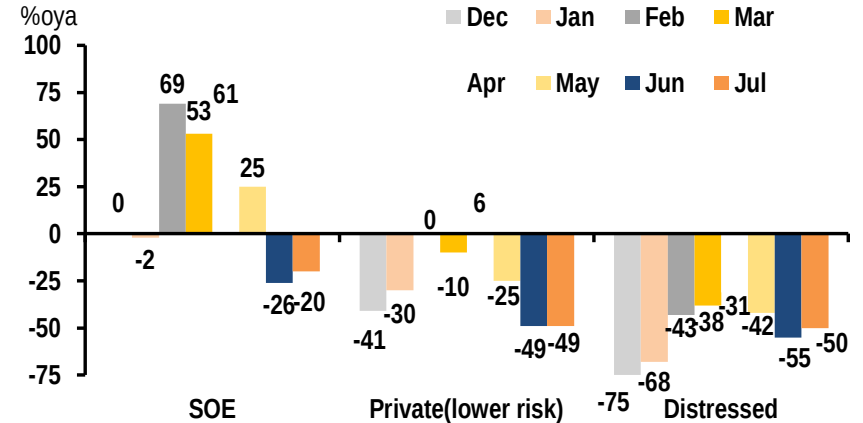
### China's house prices



Source: NBS, J.P. Morgan

## Divergence among developers

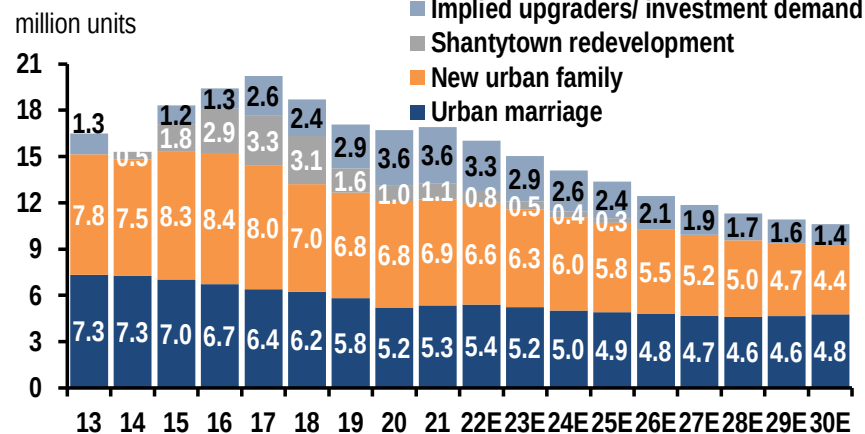
### China developers' home sales



Source: CRIC, J.P. Morgan

## Housing market slowdown is structural

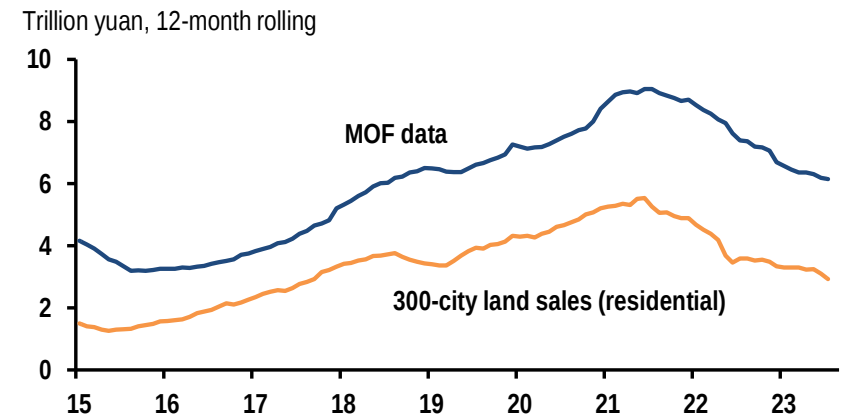
### Breakdown of housing demand



Source: CEIC, NBS, CREIS, Soufun, J.P. Morgan estimates

## Falling land sales

### China's land sale revenue

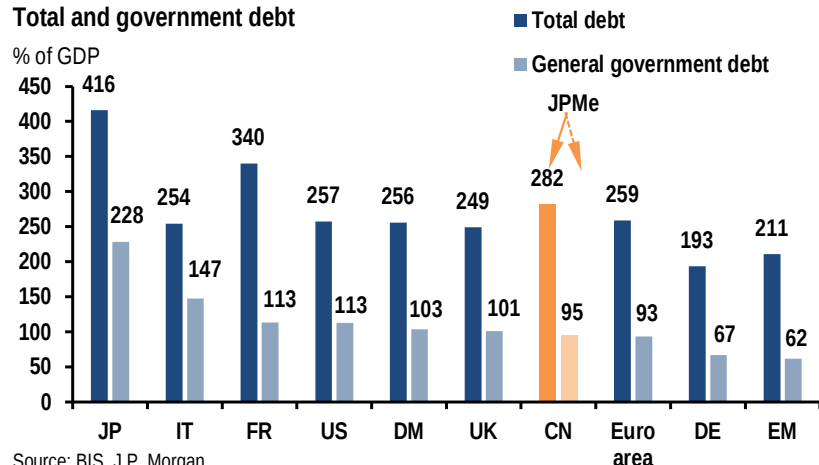


Source: MOF, J.P. Morgan

# LGFV stress

## China's debt level

### Total and government debt

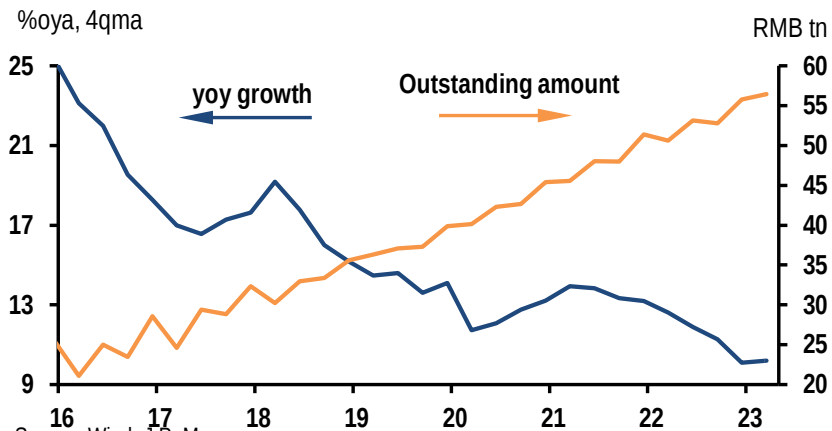


Source: BIS, J.P. Morgan

Note: JPM estimates for China as of 4Q22, and government debt includes central and local government debt and LGFV debt; BIS estimates for other economies as of 3Q22.

## China LGFV debt

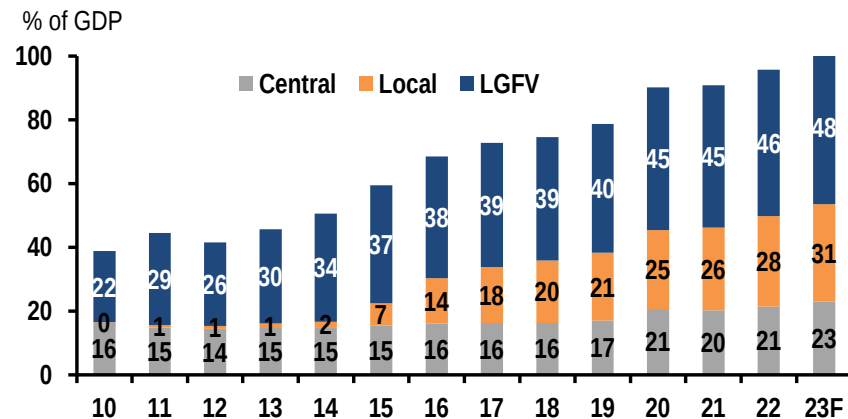
### China LGFV debt



Source: Wind, J.P. Morgan

## Government debt breakdown

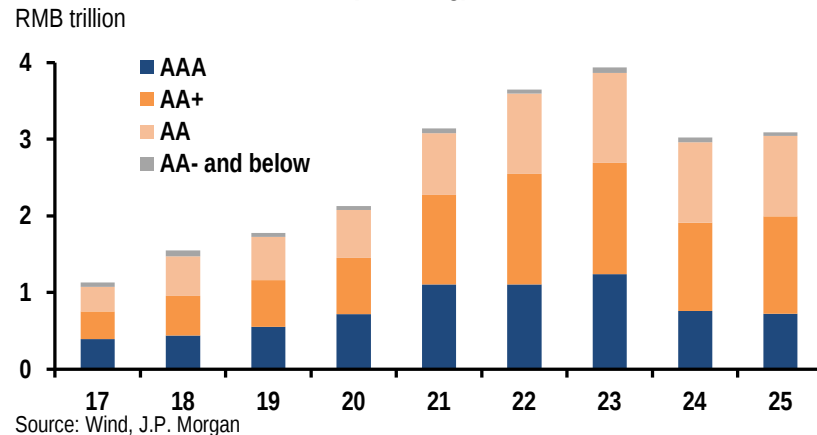
### Breakdown of government debt in China



Source: MOF, Wind, J.P. Morgan

## LGFV bond maturity amount

### LGFV bond maturity amount (by rating)



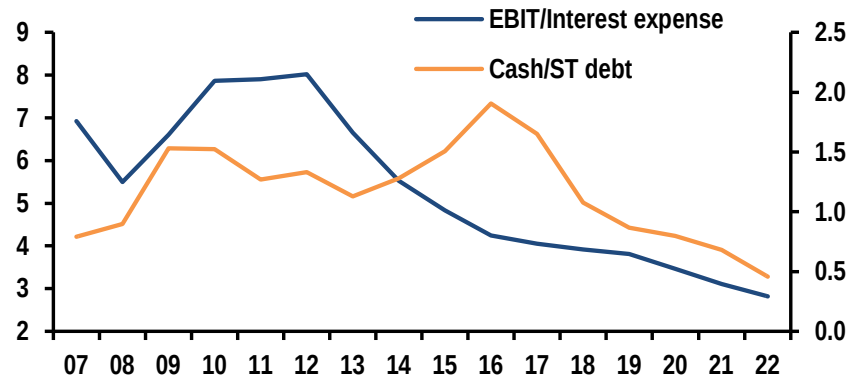
Source: Wind, J.P. Morgan

# LGFV stress

## LGFV debt repayment capacity

### LGFV debt repayment capacity (sample median)

%, both scales

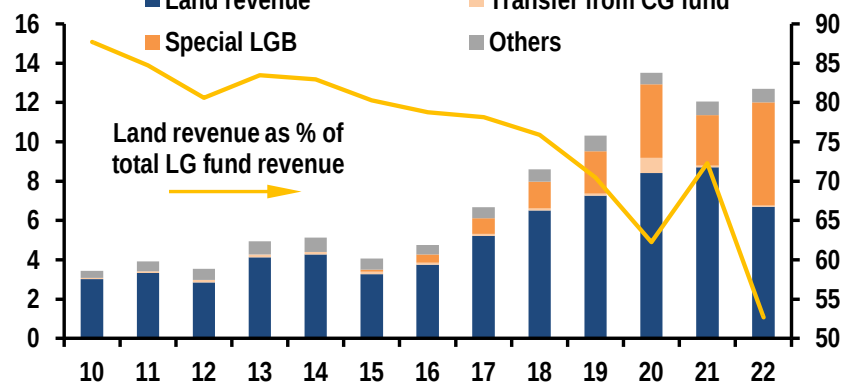


Source: Wind, J.P. Morgan

## Local government fund revenue breakdown

### Breakdown of local government fund revenue

RMB tn

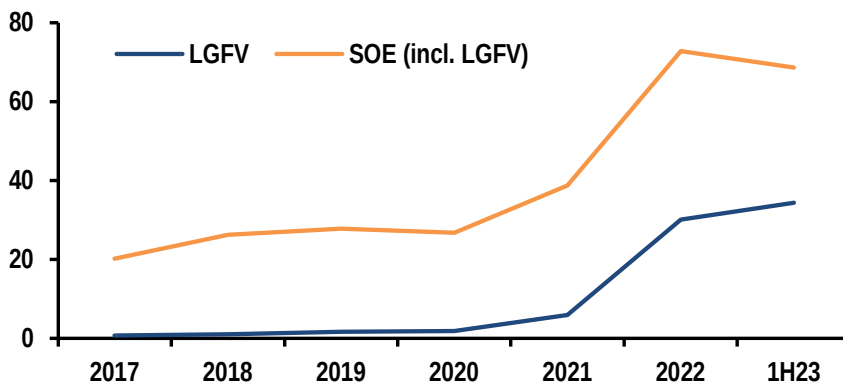


Source: MOF, J.P. Morgan

## LGFV land acquisition value

### Land acquisition value breakdown by ownership

% of total

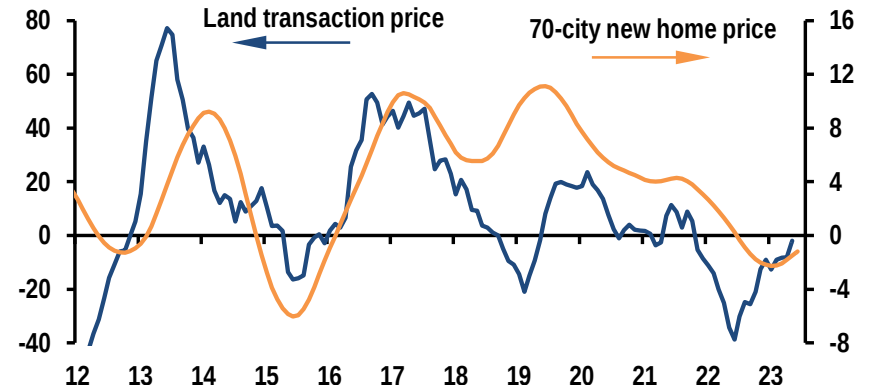


Source: CREIS, J.P. Morgan

## Land and housing prices

### China's land and housing prices

%oya, 6mma, both scales

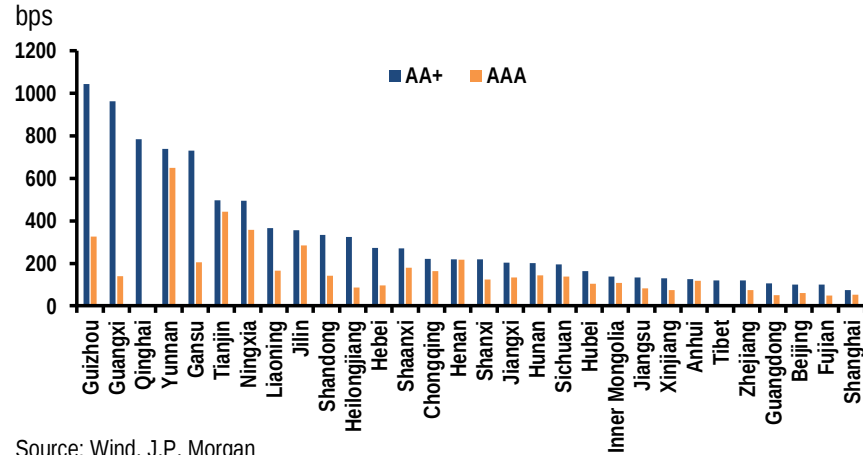


Source: NBS, CREIS, J.P. Morgan

# LGFV stress

## LGFV bonds spread within the province

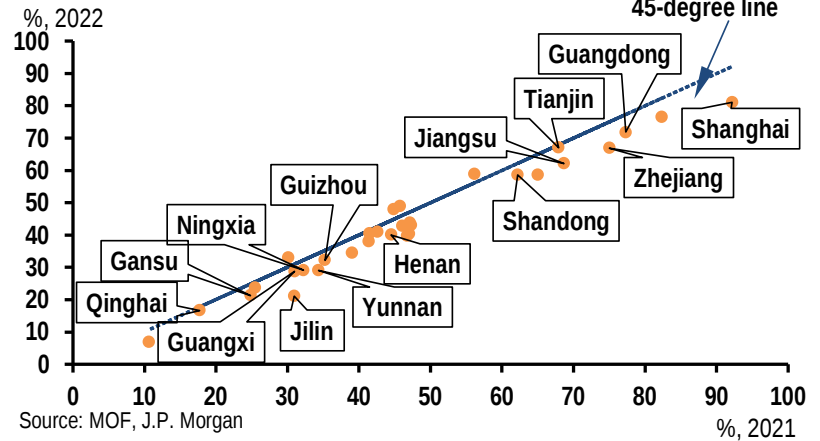
### LGFV bonds spread within the province



Source: Wind, J.P. Morgan

## Provincial government fiscal self-sufficiency

### Provincial government fiscal self-sufficiency

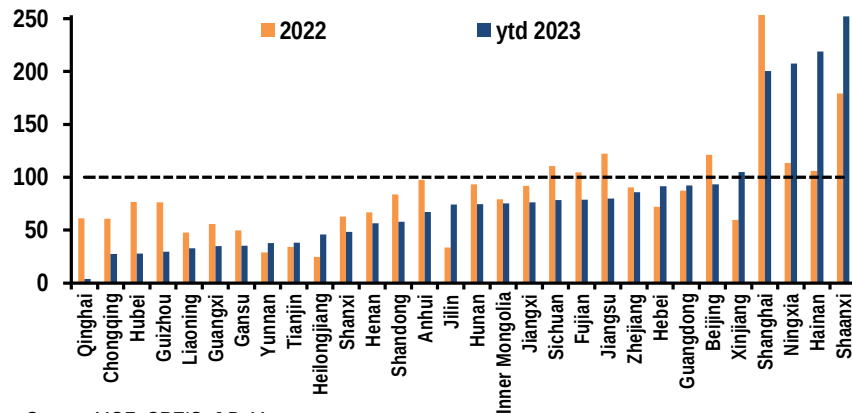


Source: MOF, J.P. Morgan

## Provincial land sales revenue

### Provincial land sale revenue

% of 2019

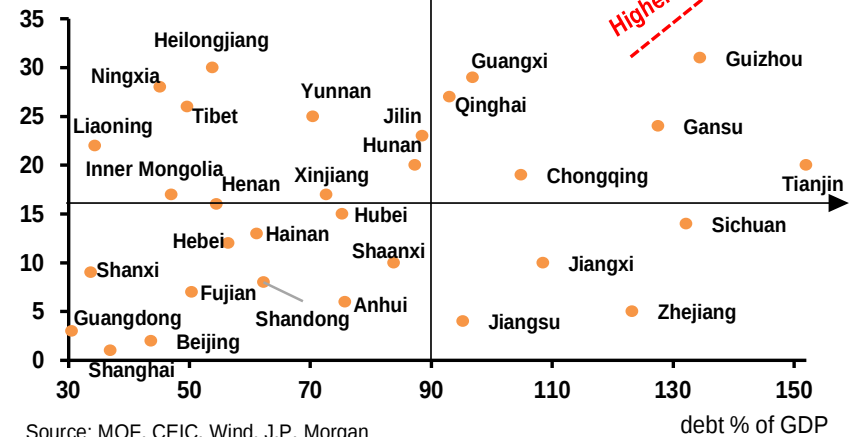


Source: MOF, CREIS, J.P. Morgan

## China provincial debt risk matrix

### China provincial debt risk matrix

Ranking



Source: MOF, CEIC, Wind, J.P. Morgan

# LGFV stress

Table: Provincial debt burden and fiscal strength

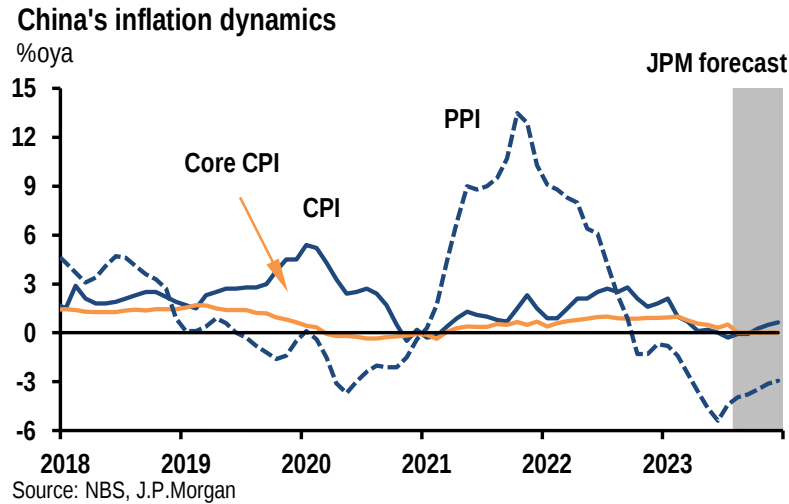
Province	Total debt	GDP per capita	Fiscal revenue	Fiscal self-sufficiency	Land sale revenue	Special LGB	Deptsit-Loan	Coupon-MLF rate	Cash/ST debt	
	% of GDP	RMB th	% of GDP	%	% of 2019	RMB bn	% of debt	%	%	
Eastern	Beijing	43.6	190	13.7	77	121	80	334.0	1.0	17
	Fujian	50.3	127	6.3	59	105	183	-13.8	1.3	0.6
	Guangdong	30.5	102	10.3	72	87	431	115.2	0.8	1.0
	Hainan	61.1	67	12.2	40	106	25	39.6	1.1	1.8
	Hebei	56.4	57	9.6	44	72	229	107.3	2.0	0.5
	Jiangsu	95.2	144	7.5	62	122	176	8.2	1.7	0.5
	Shandong	62.2	86	8.1	59	84	347	43.3	2.0	0.5
	Shanghai	36.9	180	17.0	81	253	35	399.9	0.7	1.8
	Tianjin	151.9	119	11.3	67	34	92	-19.7	2.6	0.3
Zhejiang	123.2	118	10.3	67	90	262	2.0	1.5	0.5	
Central	Anhui	75.7	74	8.0	43	97	171	25.4	1.7	0.7
	Henan	54.4	62	6.9	40	67	248	52.7	2.0	0.4
	Hubei	75.2	92	6.1	38	77	185	18.4	1.8	0.5
	Hunan	87.2	74	6.4	34	93	149	17.6	2.2	0.3
	Jiangxi	108.4	71	9.2	40	92	173	2.0	2.0	0.6
	Shanxi	33.7	74	13.5	59	63	68	148.9	1.7	1.2
Western	Chongqing	104.8	91	7.2	43	61	140	-4.0	2.6	0.3
	Gansu	127.4	45	8.1	21	50	79	-8.2	2.0	0.3
	Guangxi	96.8	52	6.4	29	56	89	-12.1	3.3	0.3
	Guizhou	134.4	52	9.4	32	76	48	-30.9	3.8	0.1
	Inner Mongoli	46.9	96	12.2	48	79	28	54.3	2.7	0.6
	Ningxia	45.1	70	9.1	29	113	2	-18.2	2.8	0.2
	Qinghai	93.0	61	9.1	17	61	14	15.5	3.2	0.3
	Sichuan	132.1	68	8.6	41	111	227	25.2	2.2	0.4
	Shaanxi	83.8	83	10.1	49	179	97	55.5	2.4	0.4
	Tibet	49.6	58	8.4	7	-	2	86.5	1.3	0.4
	Xinjiang	72.6	69	10.6	33	60	117	25.1	1.8	0.6
Yunnan	70.4	62	6.7	29	29	112	-10.2	3.4	0.4	
North-eastern	Heilongjiang	53.7	51	8.1	24	25	43	139.2	3.9	0.2
	Liaoning	34.3	69	8.7	40	48	87	201.0	3.5	0.2
	Jilin	88.5	55	6.5	21	34	61	46.7	3.3	0.5
<b>National average</b>	<b>76.8</b>	<b>84</b>	<b>9.2</b>	<b>43.3</b>	<b>84.8</b>	<b>129.0</b>	<b>59.6</b>	<b>2.2</b>	<b>0.6</b>	

Source: CEIC, Wind, CREIS, J.P. Morgan

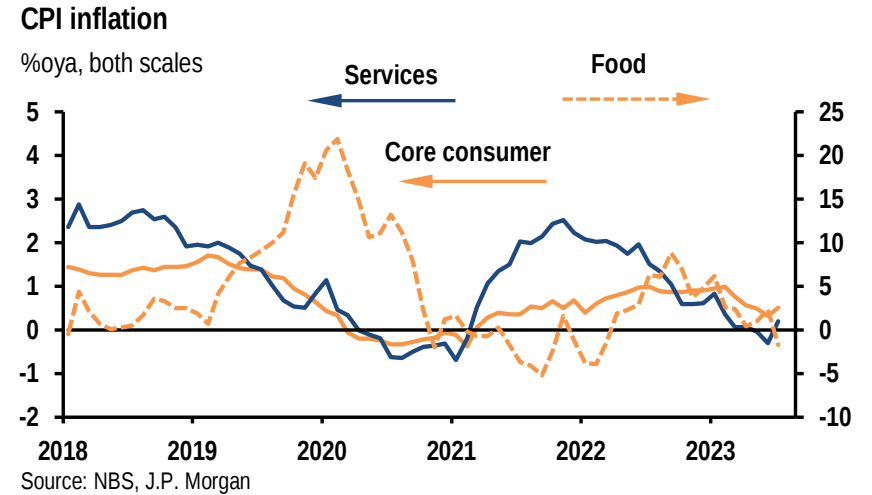
Note: 2022 numbers in the table. Fiscal self-sufficiency is measured by local-level fiscal revenue over expenditure. Total debt includes local government debt and LGFV debt.

# Deflation risk

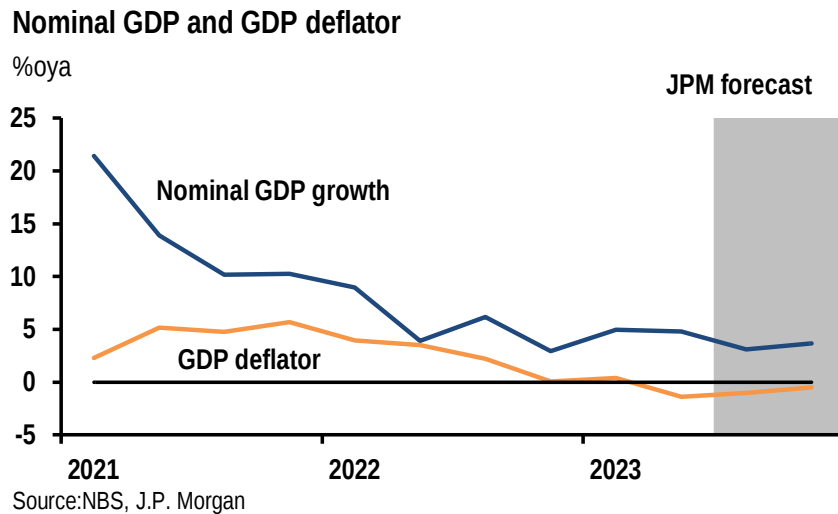
## Low CPI with PPI deflation



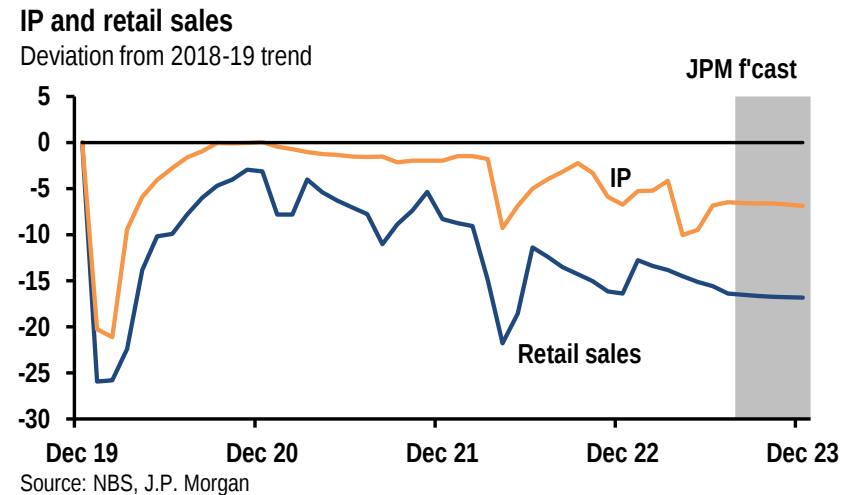
## CPI components



## Slower nominal GDP growth



## Lagging consumption recovery



# Deflation risk

## CPI basket weight

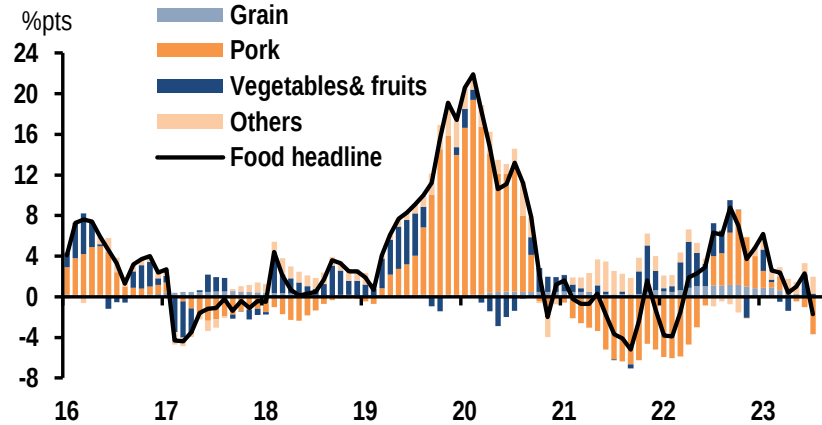
Table: China CPI basket weight

Items	Weight (2010)	Weight (2020)	Change
Food, tobacco & liquor	36.3	30.1	-6.2
- Food	32.8	21.0	-11.8
Clothing	9.2	5.8	-3.4
Residence	14.7	23.4	8.7
- Utility: Water, electricity & fuel	-	5.7	-
Household facilities, articles & services	6.0	5.9	-0.1
Transportation & communication	11.3	13.0	1.7
- Vehicle fuel	-	2.7	-
Education, culture & entertainment	12.9	10.1	-2.8
Healthcare & medical services	9.7	8.7	-1.0
Miscellaneous goods & services	-	2.9	-

Source: NBS, J.P. Morgan

## Food price breakdown

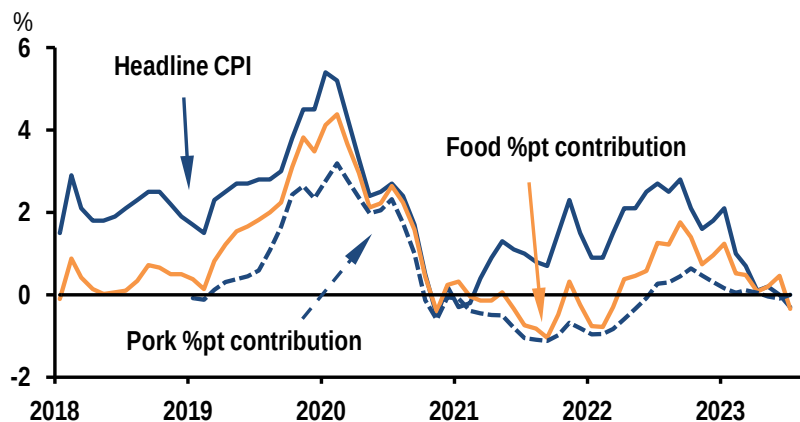
China food price breakdown



Source: NBS, J.P. Morgan

## Food, esp. pork price, has been a key driver for CPI inflation

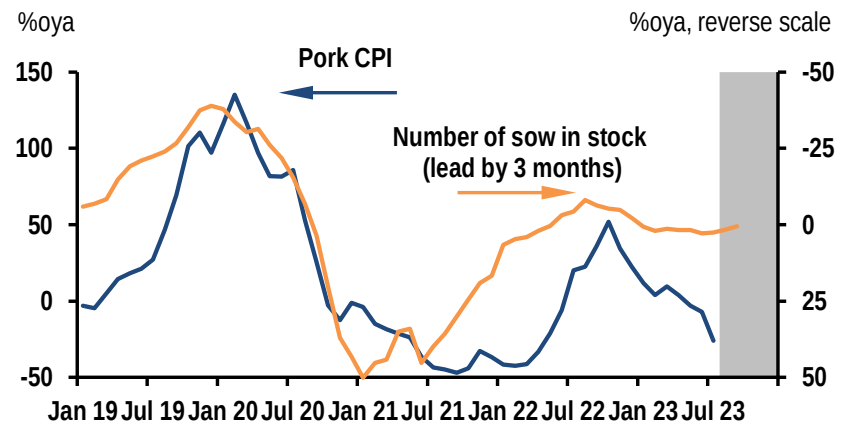
Contribution to CPI inflation



Source: NBS, J.P. Morgan

## Pork price dynamics

CPI pork prices and pork supply



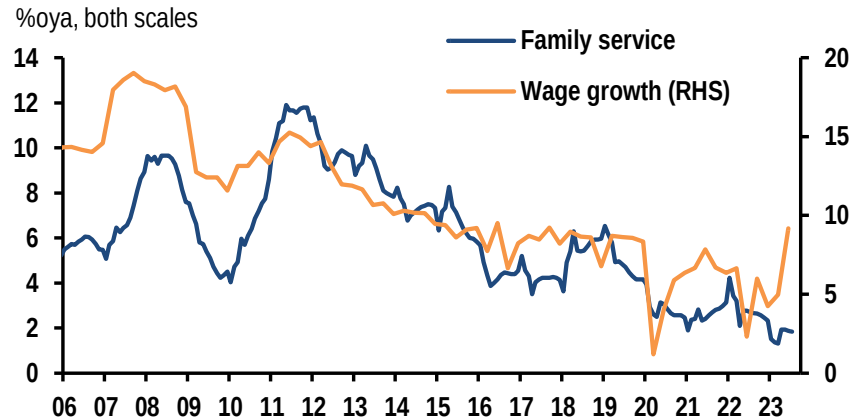
Source: NBS, J.P. Morgan



# Deflation risk

## Modest wage inflation pressure

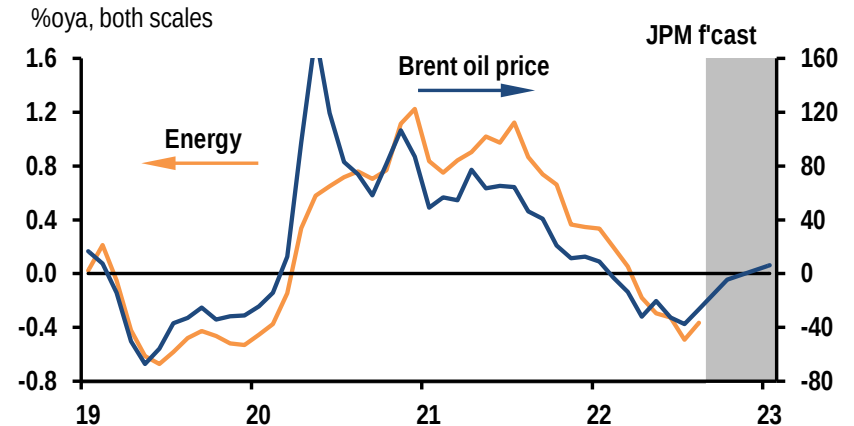
### Family service prices and wage growth



Source: NBS, J.P. Morgan; Average wage growth per annum compared to 2019 for 2021.

## Modest pass-through from global energy prices

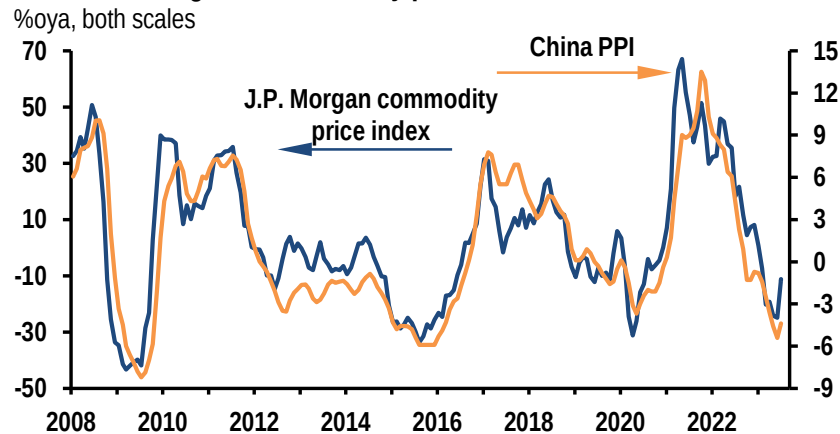
### China energy CPI and global oil price



Source: NBS, J.P. Morgan; Energy=weighted average of vehicle fuel and utility prices.

## PPI and commodity price

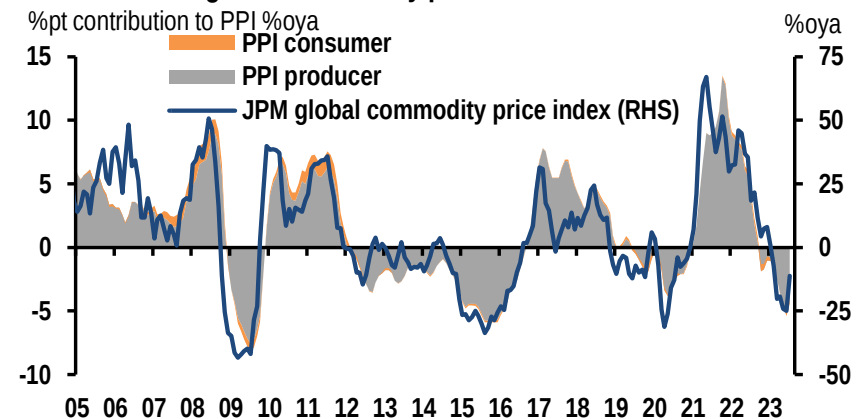
### China: PPI vs. global commodity price index



Source: NBS, J.P. Morgan

## PPI and commodity price

### China PPI and global commodity prices



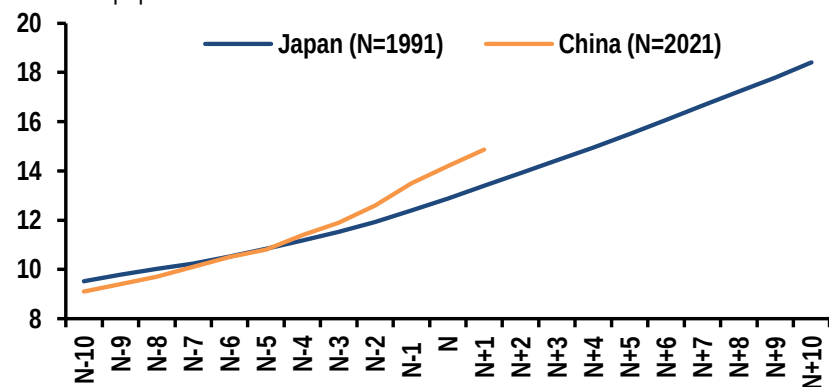
Source: NBS, J.P. Morgan

# China's Japanification risk

## Population aging is moving faster in China

### Aged population (65 and above)

% of total population

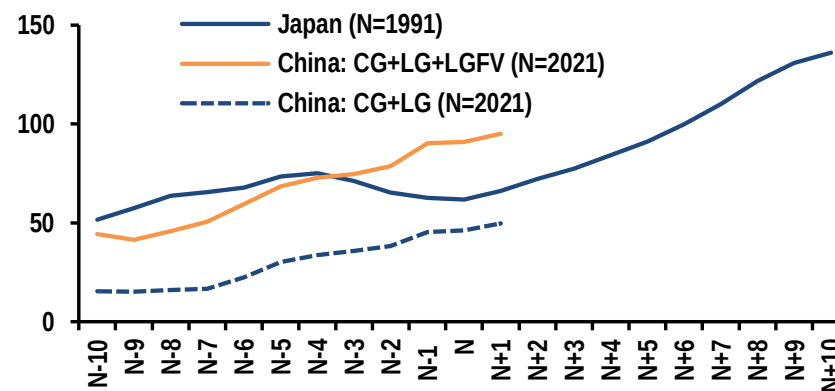


Source: CEIC, NBS, J.P.Morgan

## Room for fiscal stimulus for China is smaller

### Government debt

% of GDP

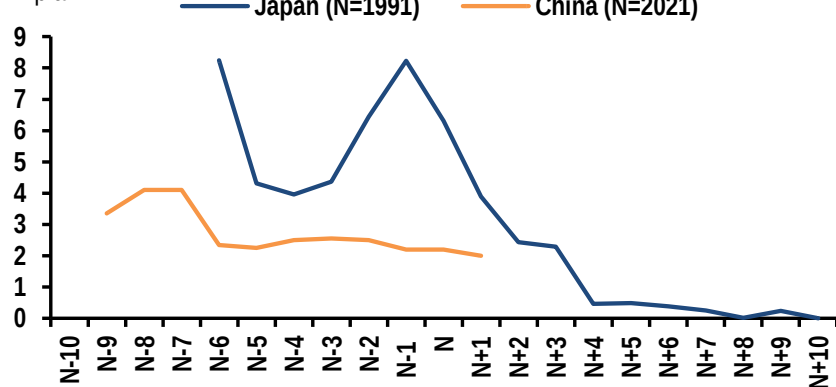


Source: CEIC, NBS, J.P.Morgan

## Room for policy rate cuts is smaller

### Policy rate

%p.a.

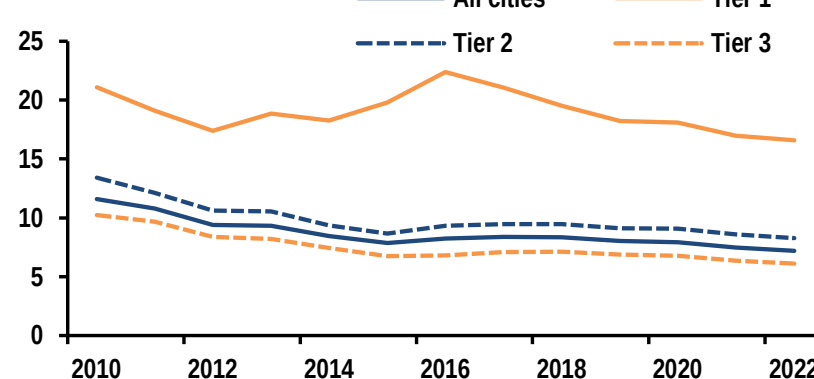


Source: BOJ, PBOC, J.P. Morgan

## China's housing price overvaluation is less severe

### Home price / income ratios in China

Ratio

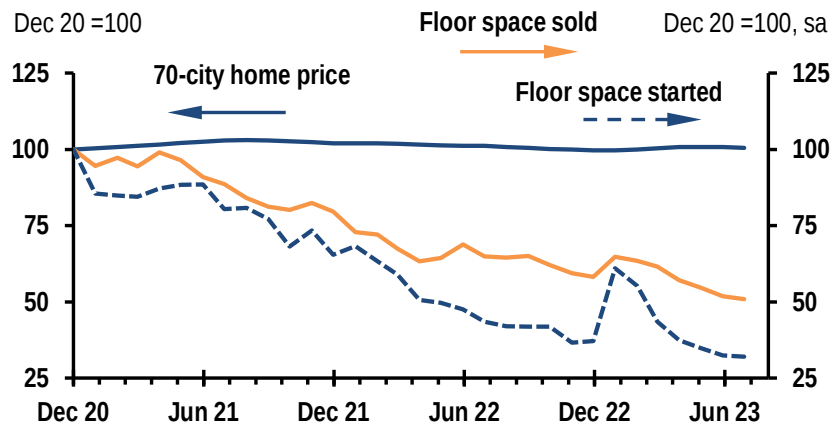


Source: Wind, J.P. Morgan calculation (90sqm apartment price).

# China's Japanification risk

## China: protect house prices, volumes correct dramatically

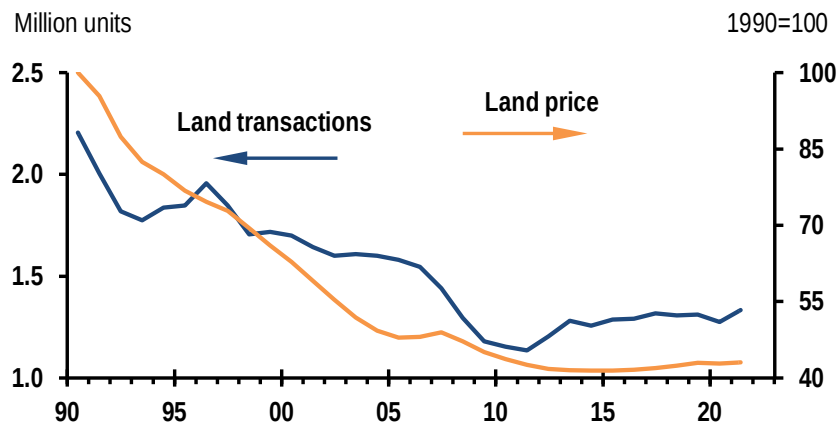
### China's housing market correction



Source: NBS, CEIC, J.P. Morgan

## Japan: prices and volume fell simultaneously

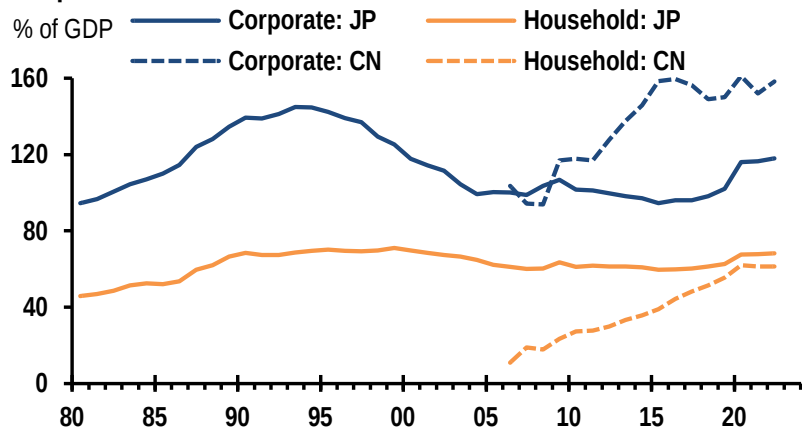
### Japan's housing market correction



Source: CEIC, J.P. Morgan

## Corporate and household debt

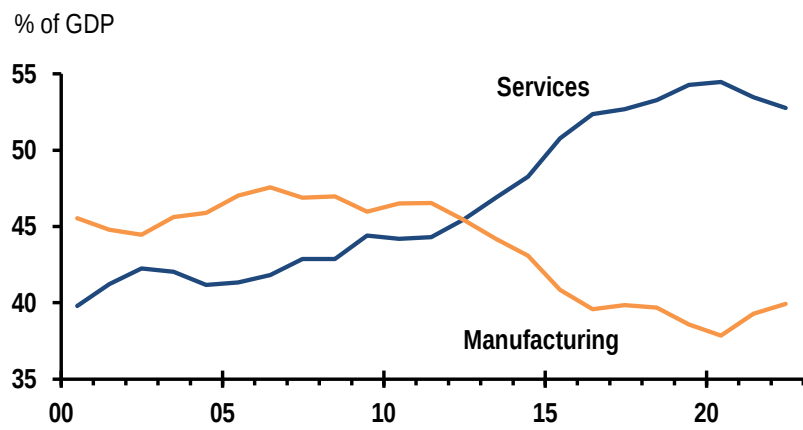
### Corporate and household debt



Source: BIS, J.P. Morgan

## Manufacturing vs. services in China

### Manufacturing vs. services in China

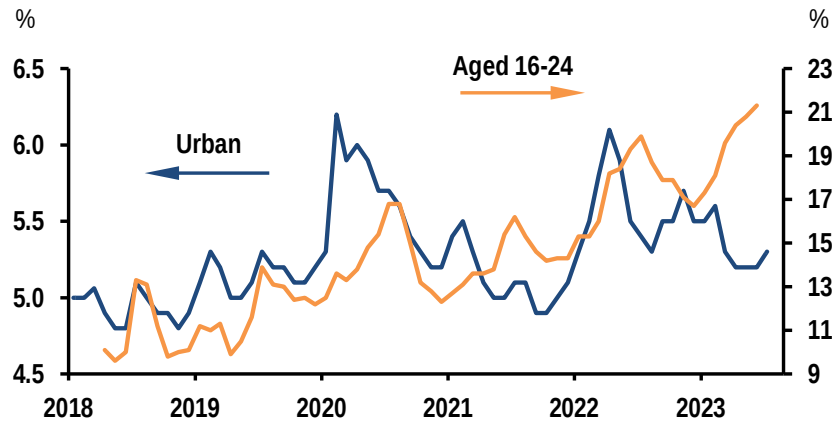


Source: NBS, J. P. Morgan

# Youth unemployment

## Record-high youth unemployment; data release suspended

### China: Survey-based unemployment rate



Source: NBS, J.P. Morgan

## Global experience

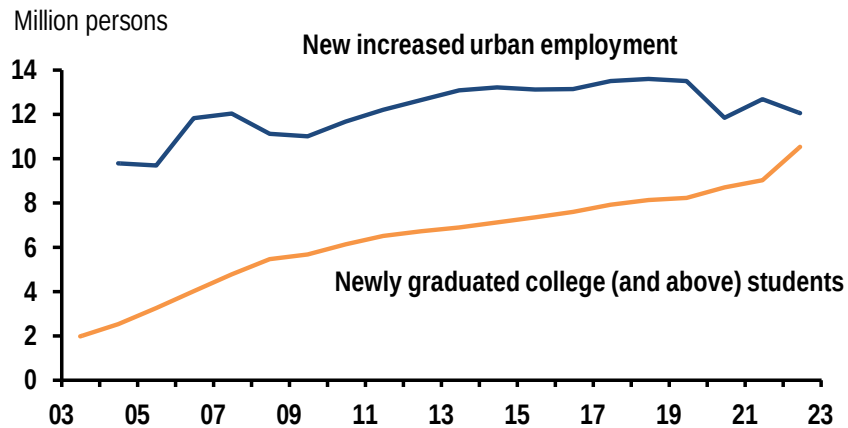
### Unemployment rates in selected countries (%)

Country	Period	Average unemployment rate		Peak unemployment rate	
		Aggregate	Youth	Aggregate	Youth
US	1Q00-1Q23	5.8	12.2	14.4	26.9
UK	1Q00-1Q23	5.5	12.9	8.5	20.2
Italy	1Q00-1Q23	9.3	28.8	14.4	47.0
Spain	1Q00-1Q23	15.7	34.0	26.9	56.9
Greece	1Q00-1Q23	15.6	36.1	28.2	62.1
Portugal	1Q00-1Q23	9.7	23.9	18.6	42.6
Japan	1Q00-1Q23	3.9	7.1	5.8	13.2
China	1Q18-1Q23	5.2	14.1	6.2	20.4

Source: CEIC, J.P. Morgan

## Changes in labor supply: more college graduates

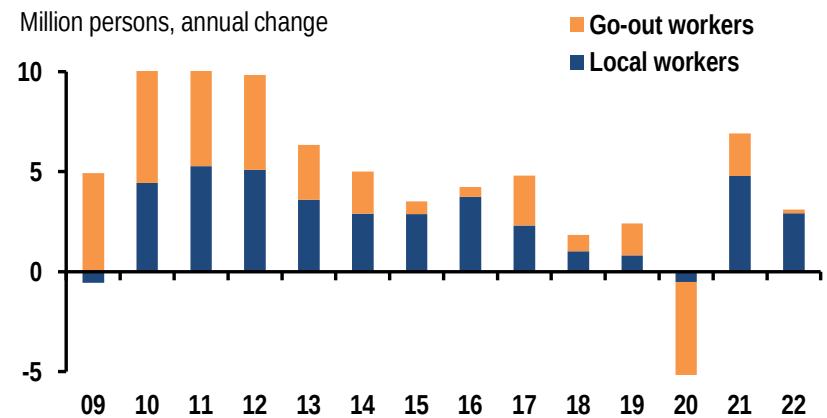
### Changing labor supply



Source: NBS, CEIC, J.P. Morgan

## Changes in labor supply: fewer migrant workers

### Migrant workers



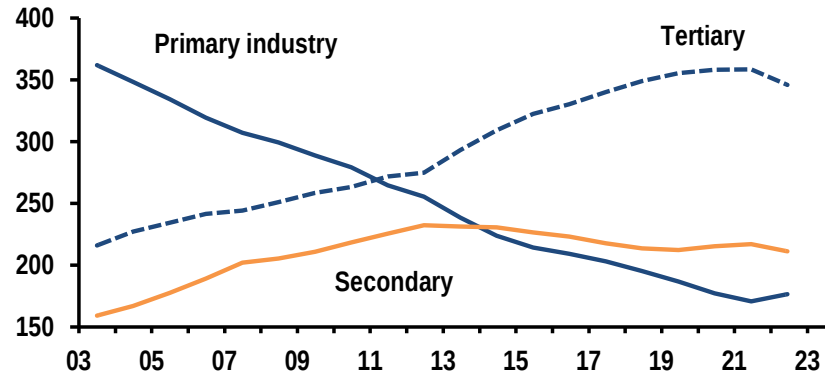
Source: NBS, CEIC, J.P. Morgan

# Youth unemployment

## Big change in employment structure in 2022

### Total employment in China by industry

Million persons

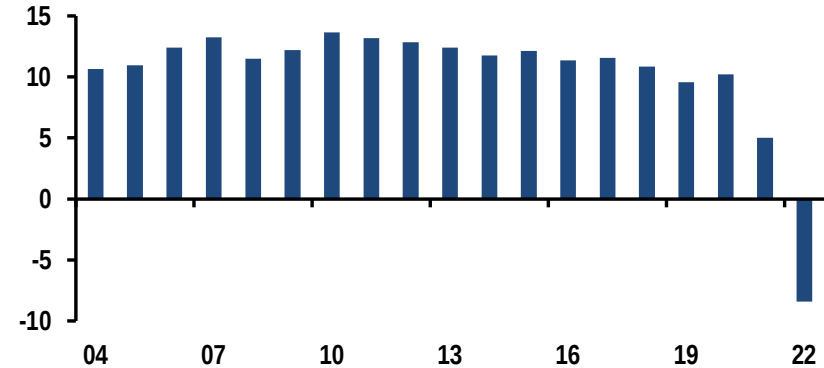


Source: NBS.

## Urban employment declined in 2022

### Urban employment in China

Million persons, annual change

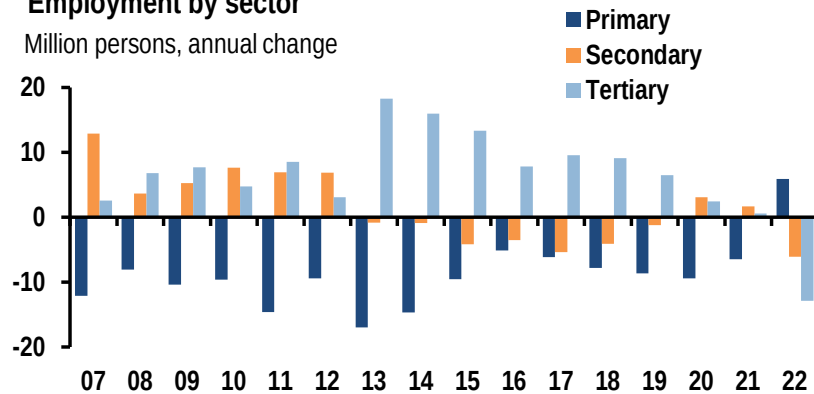


Source: CEIC, J.P. Morgan

## Increase in agricultural employment in 2022

### Employment by sector

Million persons, annual change

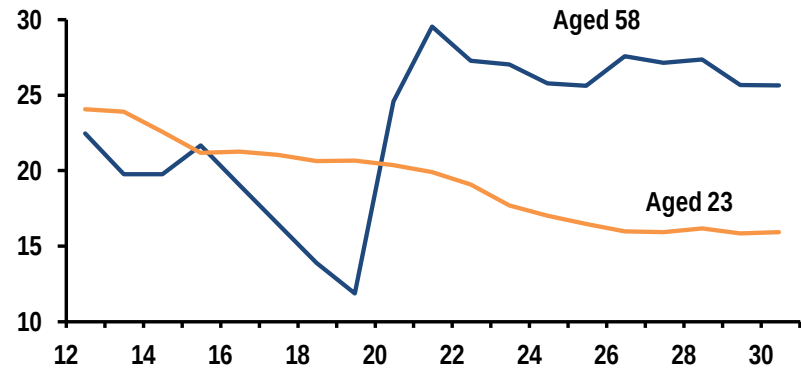


Source: NBS, J.P. Morgan

## The impact of demographic change

### Retiring vs. new workers

Million persons



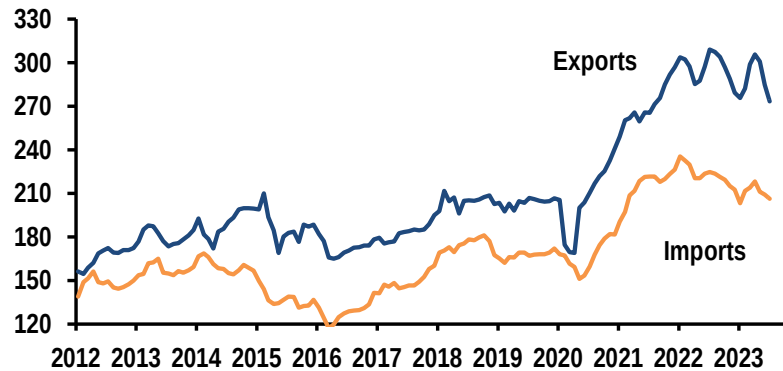
Source: NBS, CEIC, J.P. Morgan

# External challenges

## China's trade activity

### China: merchandise exports and imports

US\$ billion, sa, 3mma

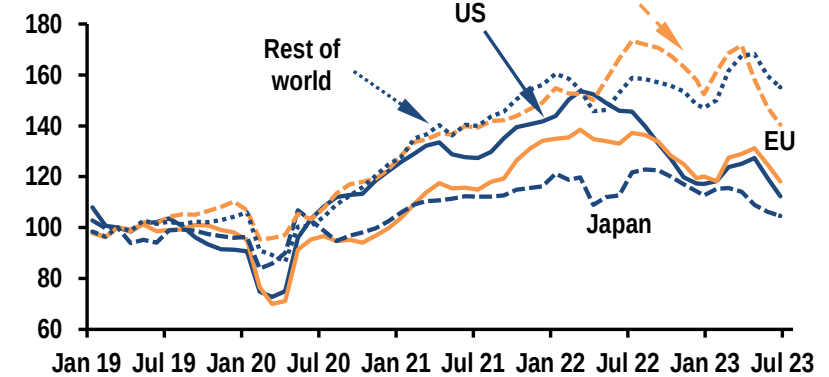


Source: China Customs, J.P. Morgan

## Export breakdown by region

### Export breakdown by region

Index, 1Q19=100, sa, 3mma

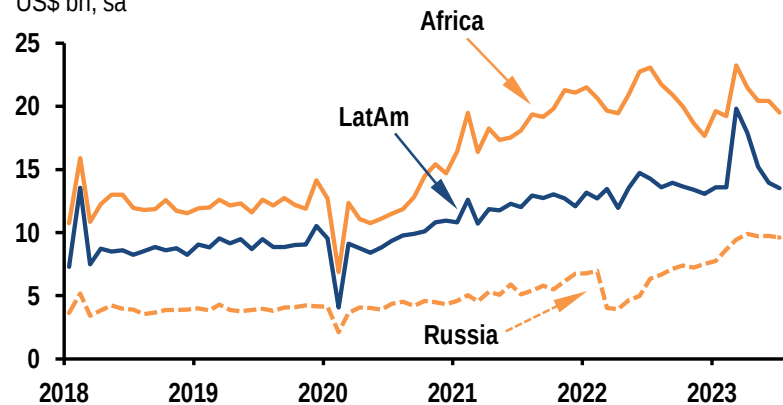


Source: China Customs, J.P. Morgan

## New destination of exports

### China exports to Africa, LatAm and Russia

US\$ bn, sa



Source: Haver, J.P. Morgan

## New export product: auto

### China automobile trade

US\$, %oya, 3mma



Source: China Customs, J.P. Morgan.

# Policy easing: watch for concrete policy measures post-Politburo

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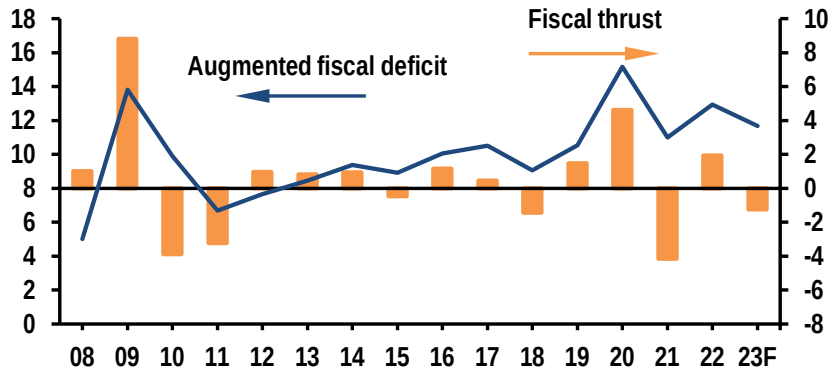
- **Policy shift started in June; Politburo meeting laid out modestly positive policy signals**
  - **Fiscal:** Tax and fee reduction / deferral for SMEs; acceleration in special local government bond issuance; product-specific consumption support (NEW, home appliance, furniture)
  - **Monetary:** 10bp policy rate cut in June; strong credit in June; 200bn yuan new re-lending; 15bp MLF rate cut in August followed by 10bp cut in 1Y LPR while 5Y LPR remained unchanged.
  - **Housing:** city-level housing policy relaxation; extension of 16 measures (liquidity support for developers)
- **Weaker-than-expected 2Q GDP and July data implies further policy easing, but no bazooka-like stimulus**
  - **Incentive:** not similar urgency as in 2020 or 2022; 5% growth target may still be achievable though facing higher uncertainty.
  - **Ability:** room for policy stimulus is more limited. Public debt (central government debt + local government debt + LGFV debt) is now 95% of GDP; short-end policy rate is 1.8%; average RRR is 7.6%
  - **Policy effectiveness:** policy transmission tends to be weaker. Policy bias in favor of production and supply, in favor of technology innovations and manufacturing upgrade is problematic and contributes to deflation risk and high youth unemployment. On the positive side, the July Politburo meeting and a series of policy meetings have focused on stabilizing the housing market, supporting consumption and restoring confidence of private entrepreneurs. In the near term, concrete measures and implementation will be key.
- **Policy outlook**
  - **Fiscal:** More likely using policy bank support, the central government may allow provincial governments to use remaining room from local government debt ceiling to mitigate local government debt pressure
  - **Monetary:** 25bp RRR cut in 3Q; expand structural monetary policy instrument
  - **Housing:** further housing policy relaxation will likely be introduced in the coming weeks, e.g., relaxed mortgage policy and relaxation in home purchase restrictions

# Fiscal policy

## Fiscal policy stance

### Fiscal policy stance

% of GDP, both scales

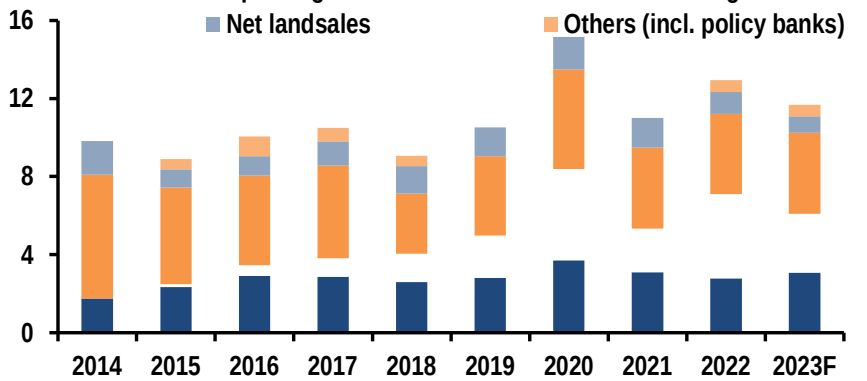


Source: CEIC, J.P. Morgan estimates

## Breakdown of augmented fiscal deficit

### Augmented fiscal deficit and breakdown

% of GDP

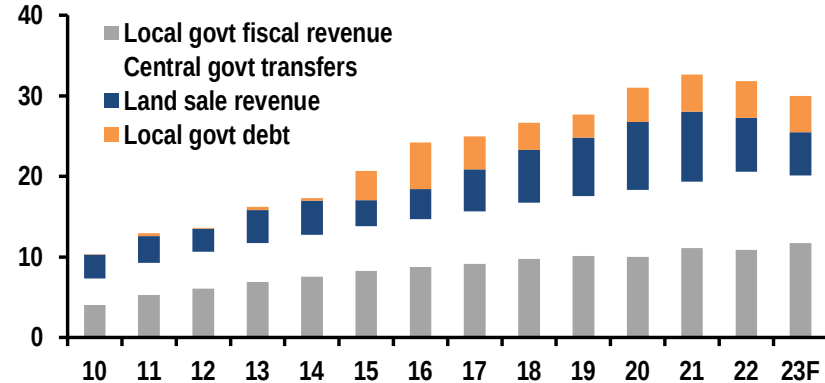


Source: MOF, J.P. Morgan estimates

## Local government funding sources

### Local government funding sources

RMB, tn

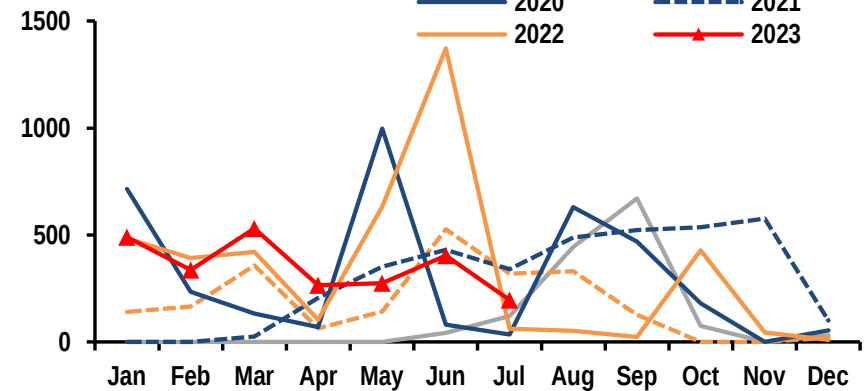


Source: MOF, J.P. Morgan estimates

## Frontloaded fiscal policy

### China special LGB issuance

RMB bn



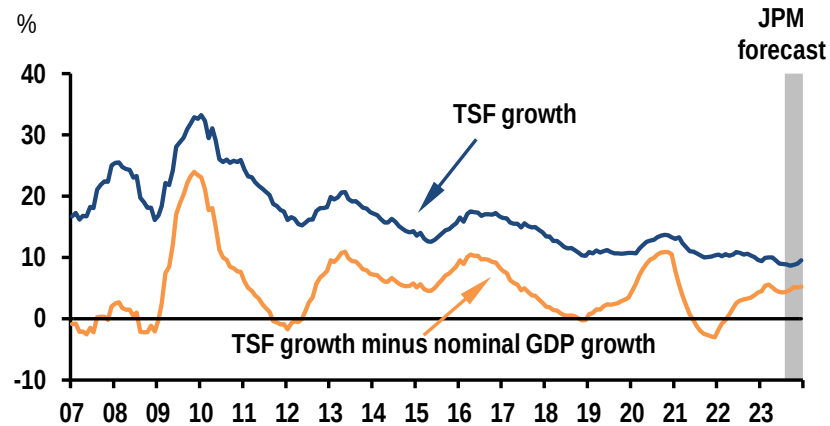
Source: MOF, J.P. Morgan



# Monetary policy

## TSF growth and credit impulse

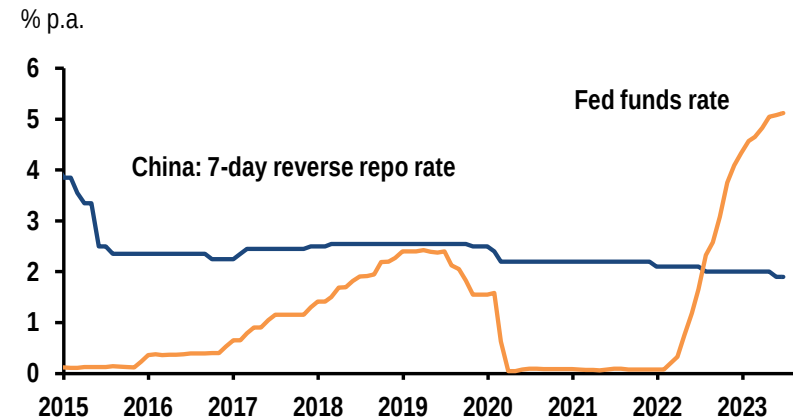
China: TSF growth and credit impulse



Source: PBOC; J.P. Morgan

## Through-the-cycle attenuation approach in policy rates in China

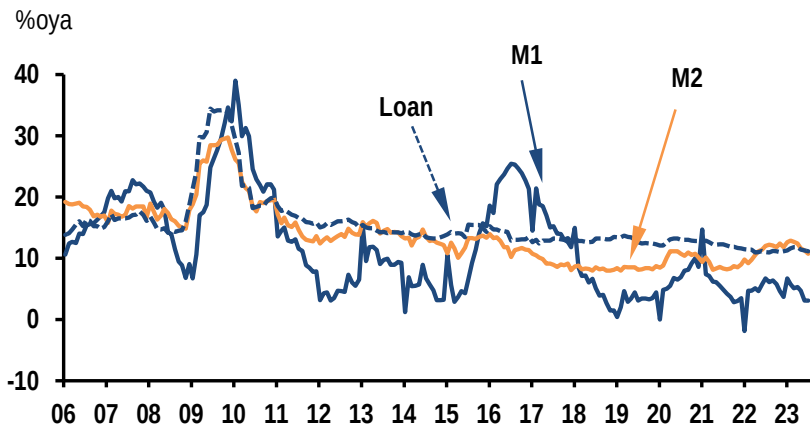
Policy rates in the US vs. China



Source: Federal Reserve Board, PBOC, J.P. Morgan

## Money supply and loan growth

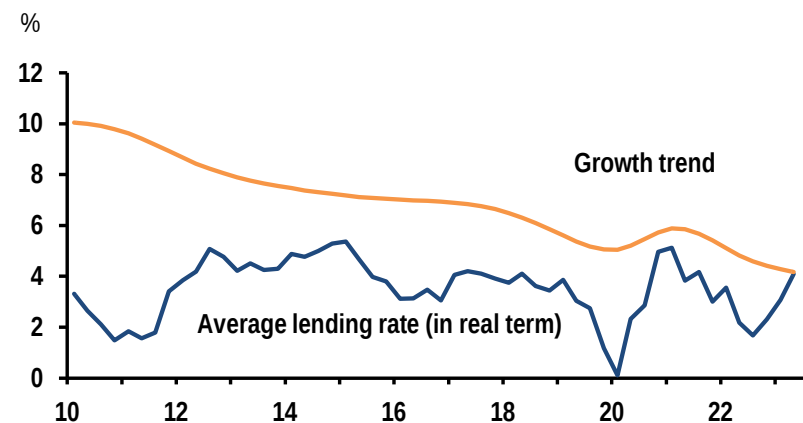
China: Money supply and loan growth



Source: PBOC, J.P. Morgan

## Real rates in China: "Golden rule"

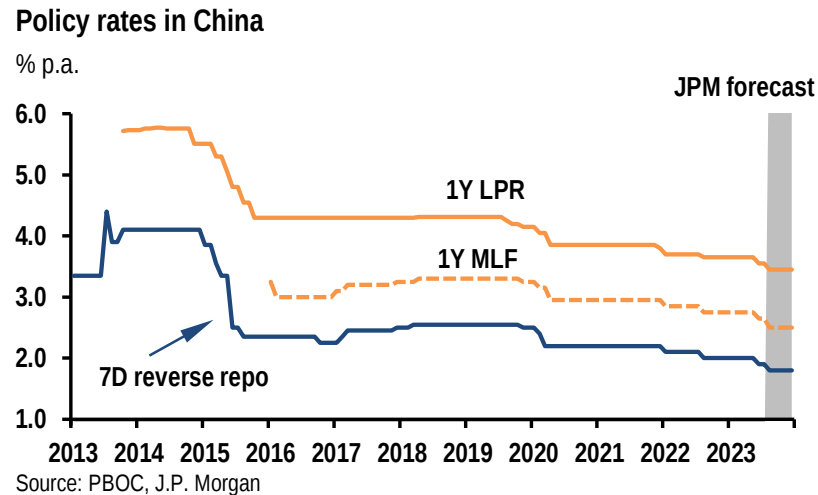
China's "golden rule"



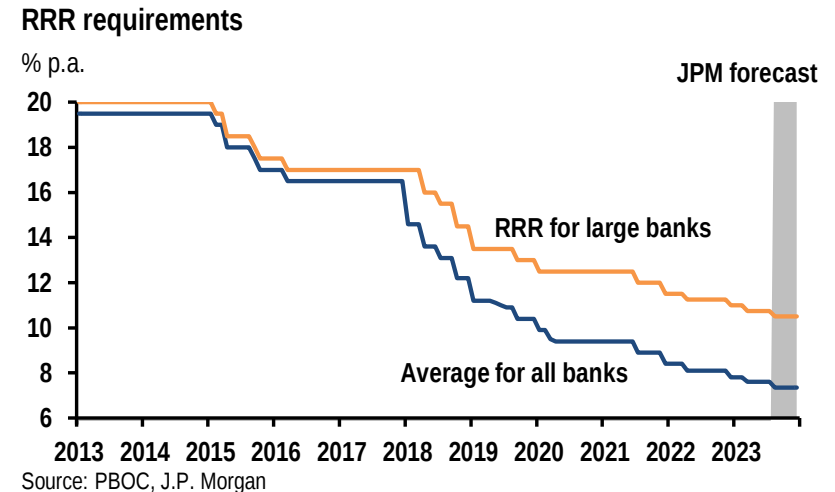
Source: NBS, J.P. Morgan estimates

# Monetary policy

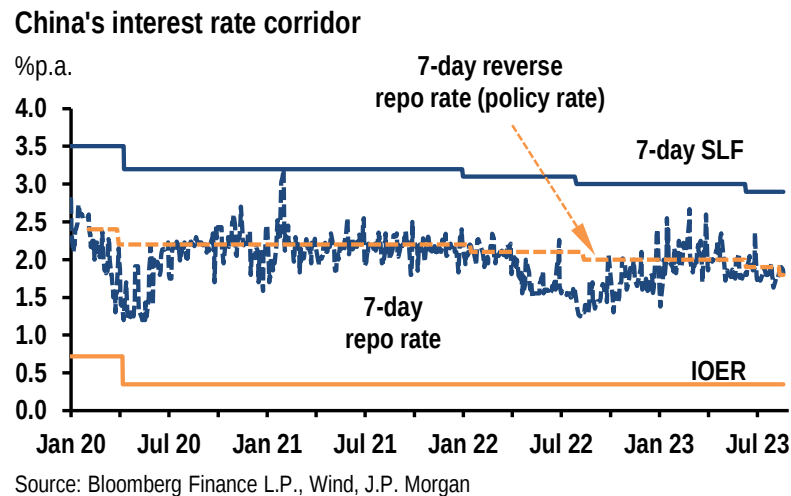
## Recent policy rate cut



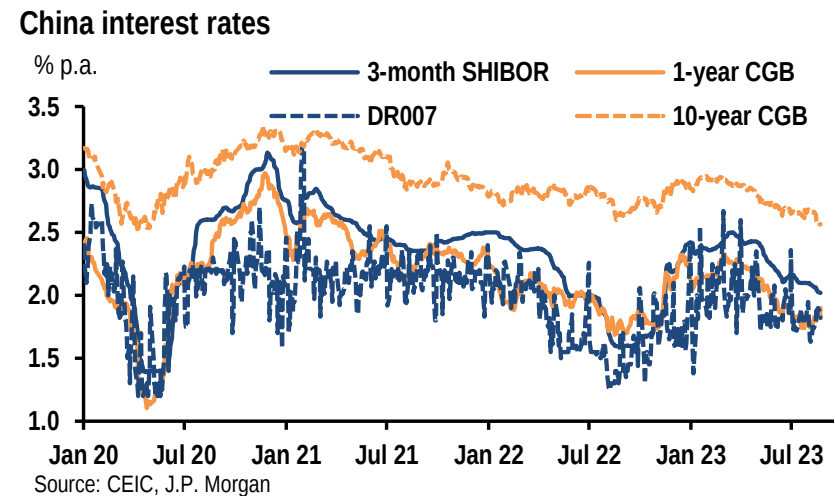
## Expecting another RRR cut in 3Q



## Interest rate corridor

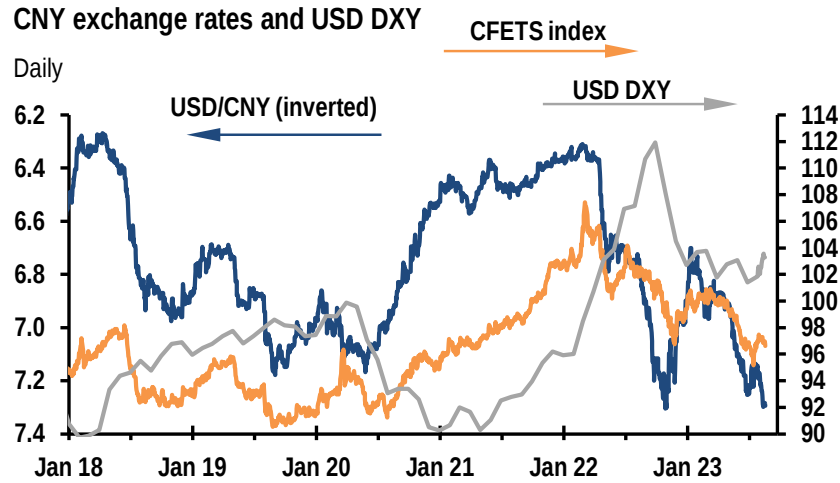


## Counter-cyclical market interest rates



# Exchange rate

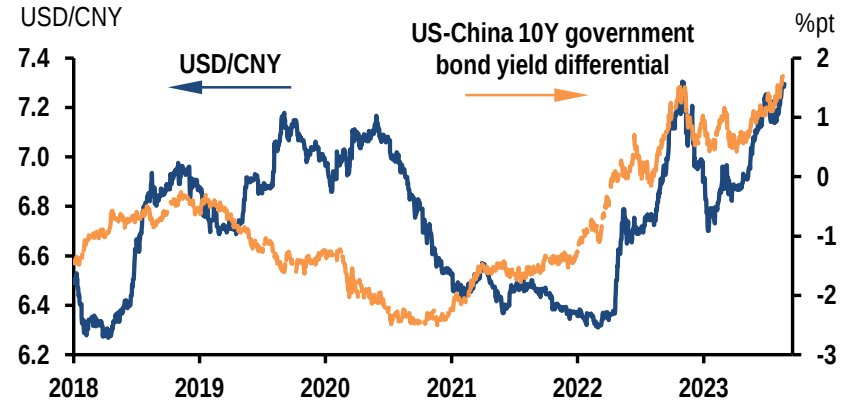
## CNY exchange rate



Source: Bloomberg Finance L.P., J.P. Morgan

## US-China interest rate differentials

### Exchange rate vs. interest rate differentials

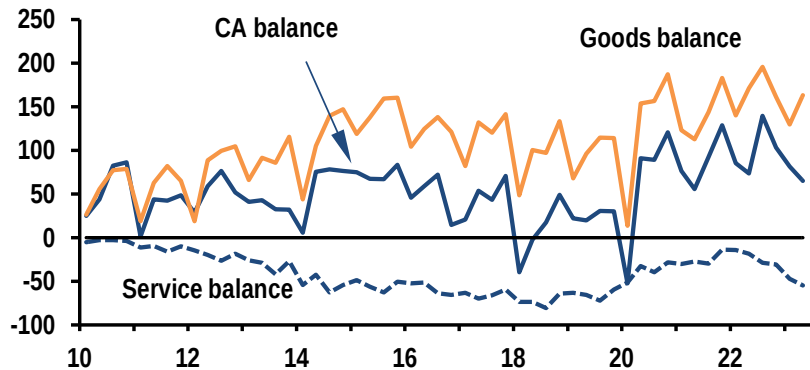


Source: CEIC, J.P. Morgan

## Current account surplus

### China: Current account balance

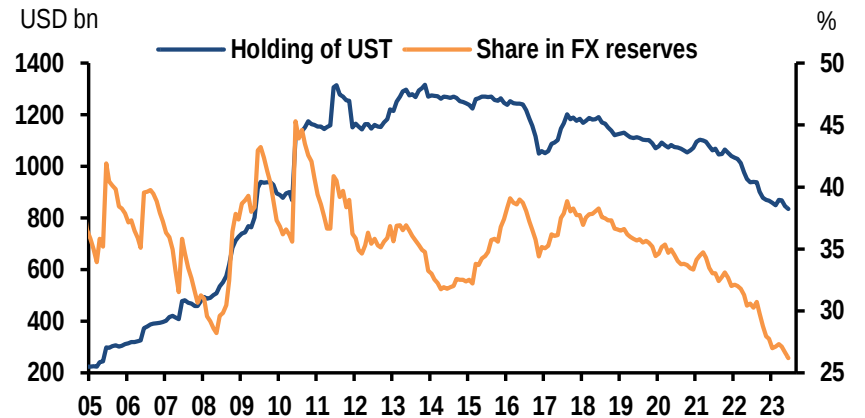
US\$bn, quarterly



Source: SAFE, J.P. Morgan

## UST holding in FX reserves

### China's holding of UST in FX reserves



Source: U.S. Department of the Treasury, SAFE, J.P. Morgan

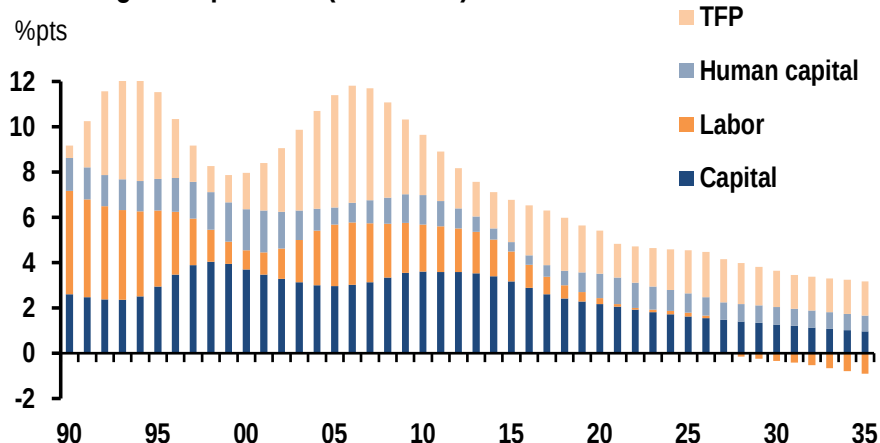
# China's long-term growth

## Downward trend in potential growth

- Declining contribution of input factors
- Population growth
- Capital stock
- Productivity increase is critical: risk is to the downside in coming years

## China potential growth breakdown (JPM 2019 estimates)

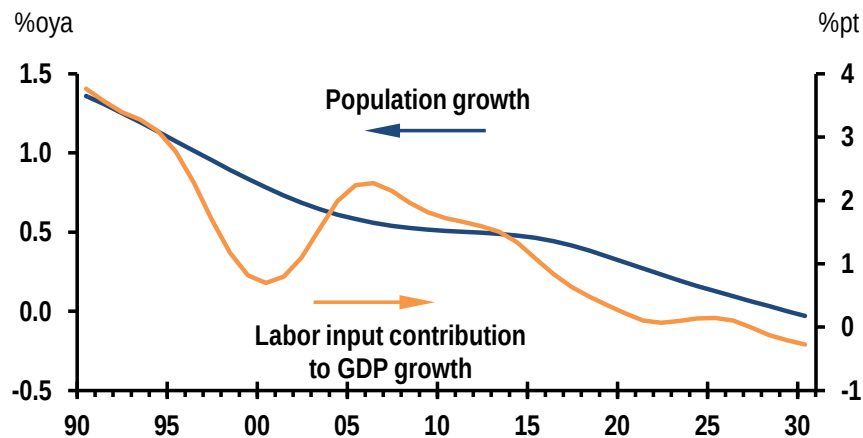
### China's growth potential (1990-2035)



Source: NBS, J.P. Morgan estimates

## Labor surplus to turn into labor deficit

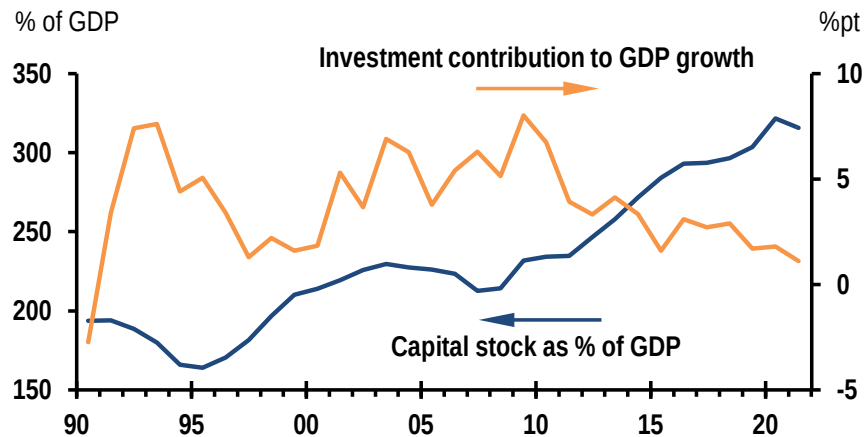
### China's population growth



Source: NBS, J.P. Morgan forecast

## Investment return is easing

### China's capital stock



Source: NBS, J.P. Morgan estimates

# China's long-term growth

## Advantages

- Large domestic market
- Comprehensive manufacturing sector
- Engineering dividend
- Many innovative entrepreneurs

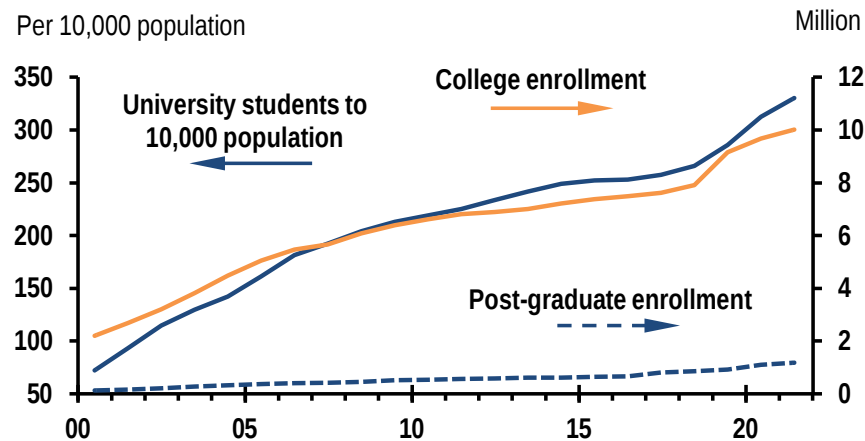
## Challenges

- US-China technology decoupling
- Global supply chain relocation
- Confidence of private entrepreneurs
- Risk: TFP may come off quickly like in 1989-91

### Human capital growth

#### China's higher education

Per 10,000 population

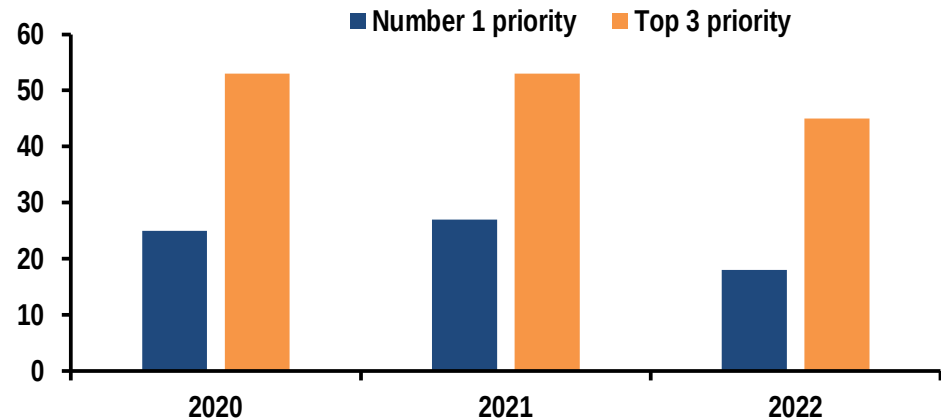


Source: CEIC, J.P. Morgan

### MNCs' perception of China

#### How do US MNCs rank China in their global investment?

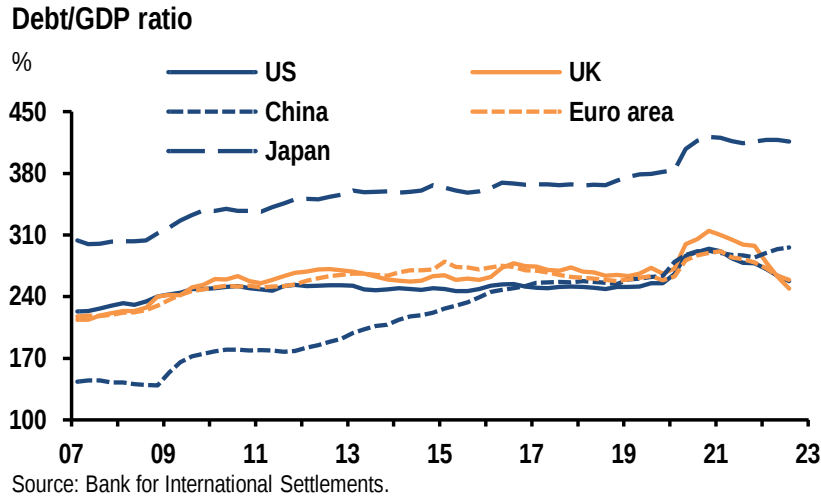
%



Source: "China Business Report 2022", AmCham Shanghai, J.P. Morgan estimates

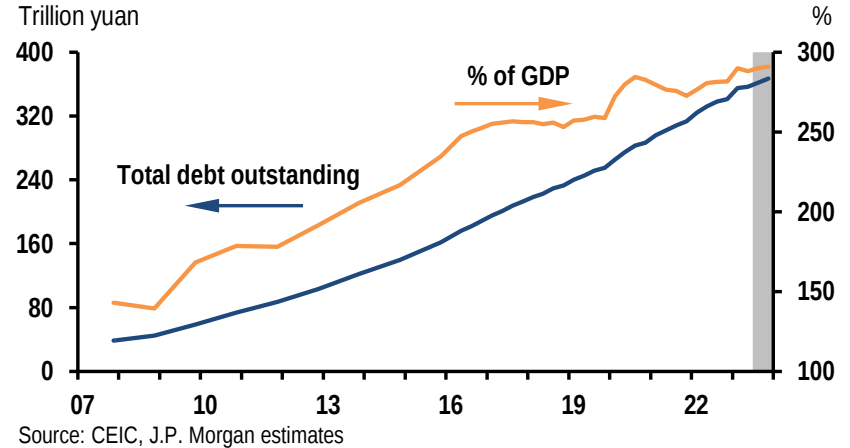
# Challenges ahead: Debt problem

## Debt/GDP ratio in major economies



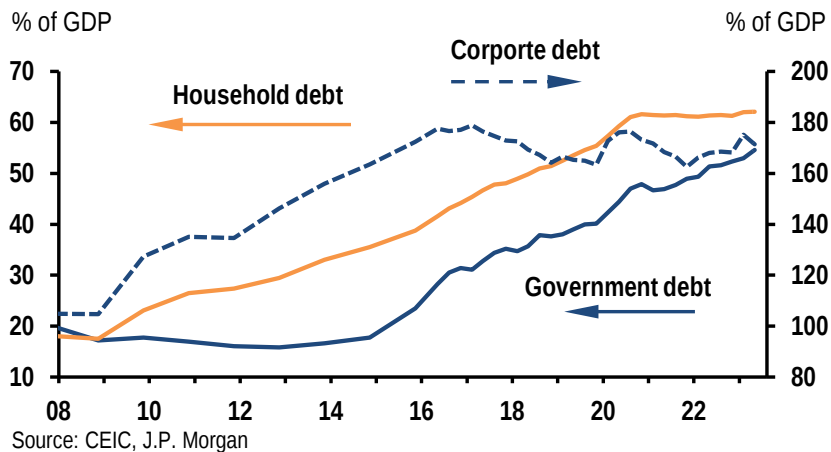
## Debt/GDP ratio may increase by 13%pts in 2023

### China's total non-financial debt



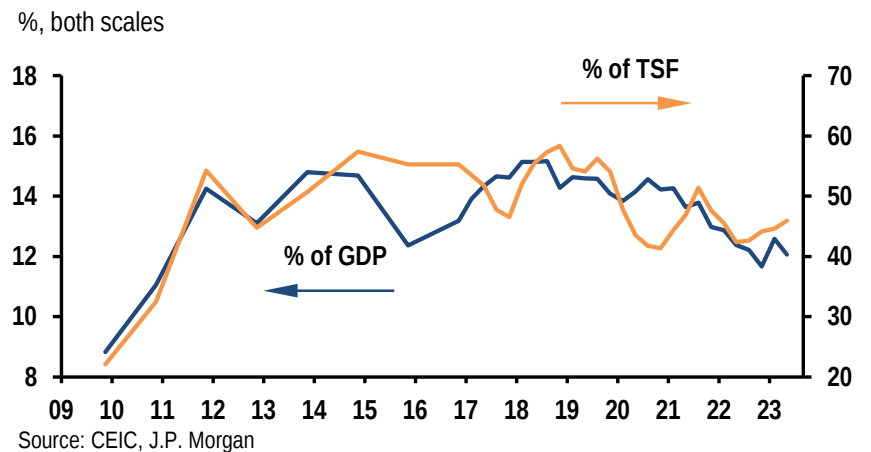
## Government led the leverage increase

### Breakdown of China's non-financial debt



## High interest repayment burden may crowd out credit support

### Interest repayment burden

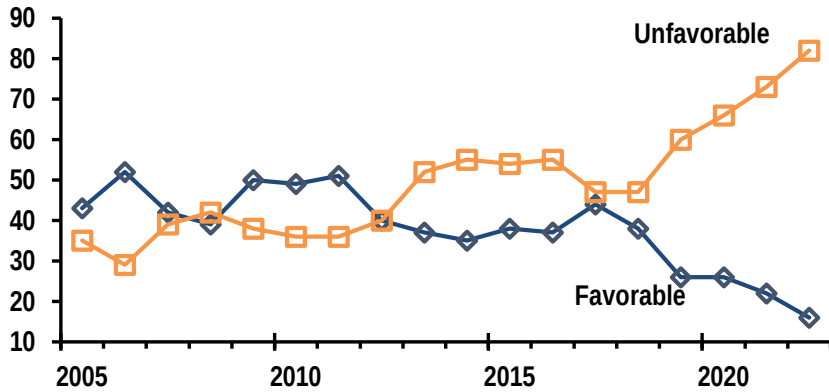


# Challenges ahead: US-China relations

## US public opinion on China has continued to turn more negative

### Negative views of China continued to grow in the US

% unfavorable opinion of China among surveyed population

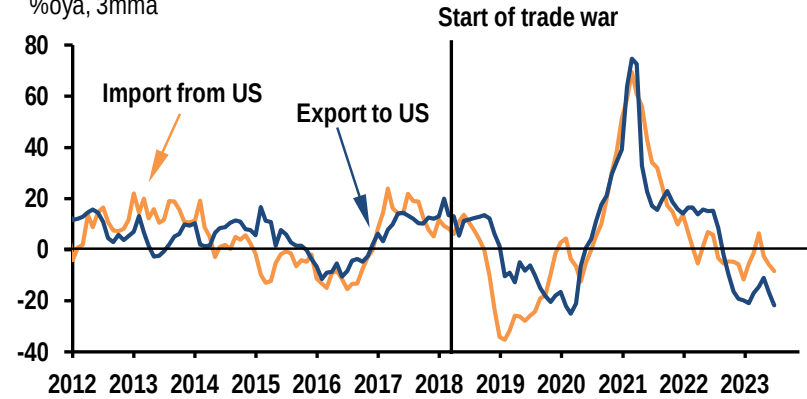


Source: Pew Research Center

## US-China bilateral trade

### Bilateral trade with the US

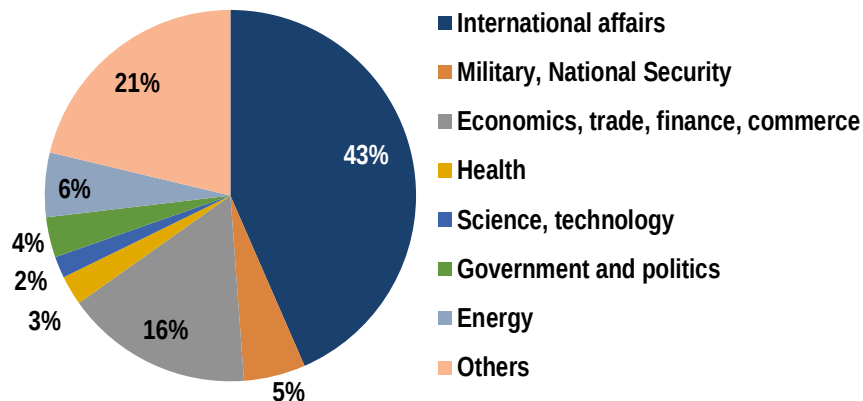
% oya, 3mma



Source: China Customs, J.P. Morgan

## US Congress bills on China from 2023

### US Congress bills on China (2023-24 onwards, by topics)

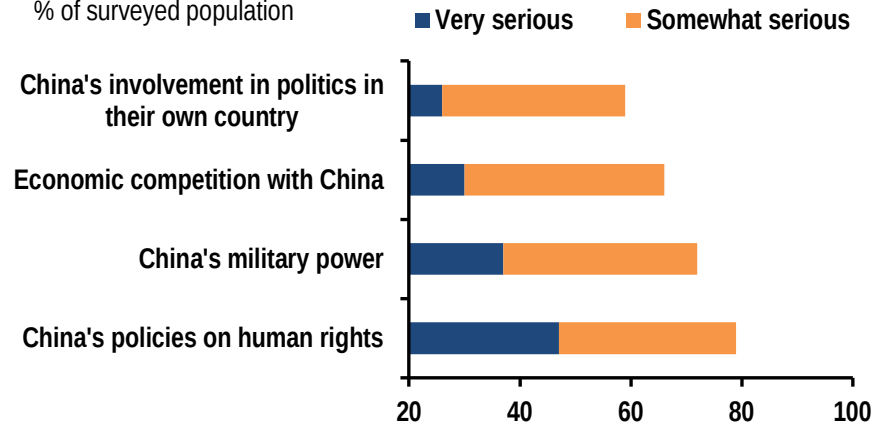


Source: US Congress, J.P. Morgan

## What are Americans concerned about China?

### Top concerns of American people on China

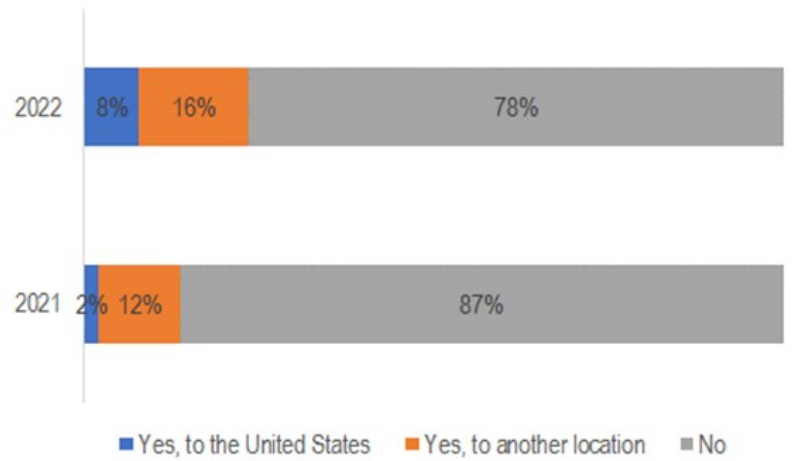
% of surveyed population



Source: Pew Research Center

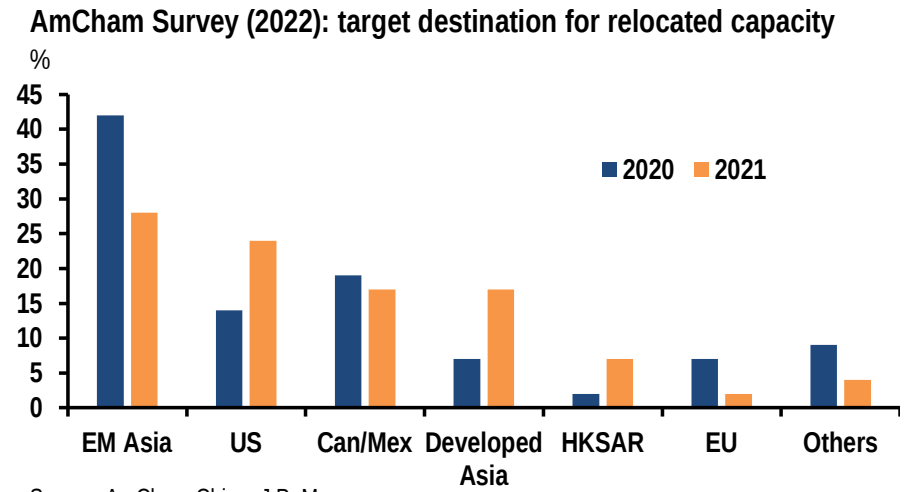
# Challenges ahead: Global supply chain relocation

## % of correspondents that moved supply chain out of China



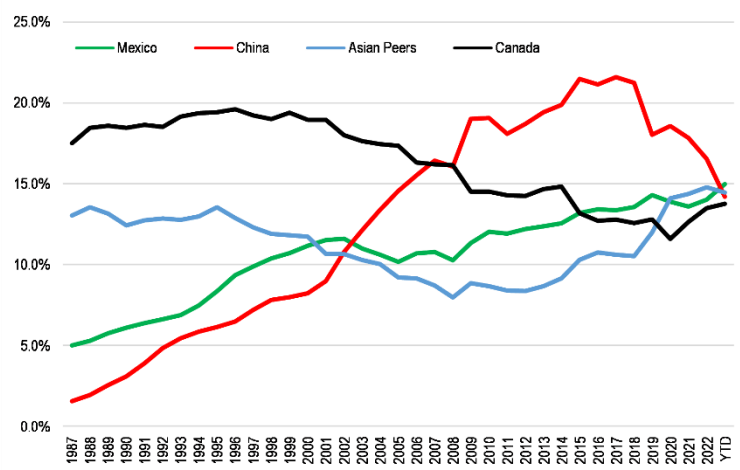
Source: US-China Business Council

## AmCham Survey (2022): Target destination for relocated capacity



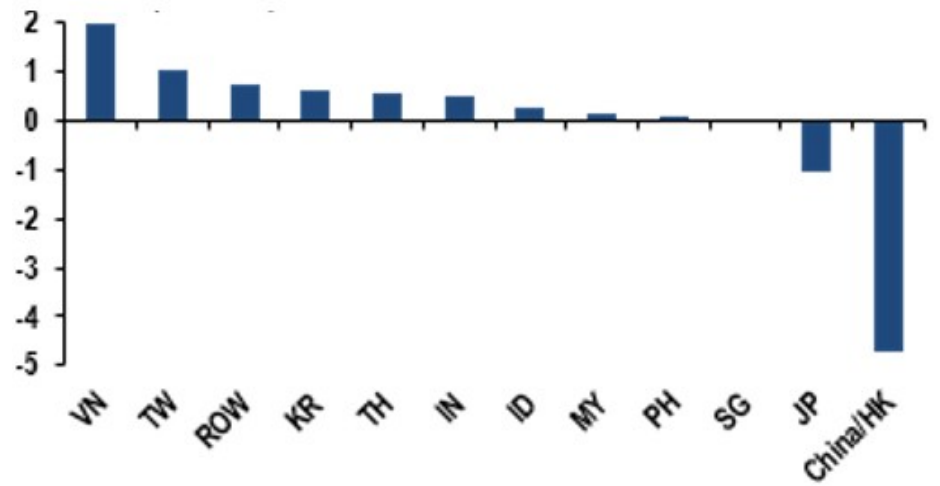
Source: AmCham China, J.P. Morgan

## US imports by country of origin



Source: U.S. Census, J.P. Morgan

## US import share, 2022 less 2018



Source: Census Bureau

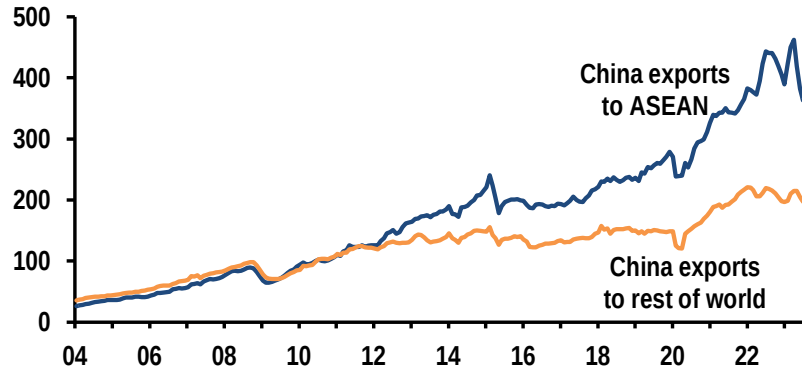


# Challenges ahead: Global supply chain relocation

## China exports to ASEAN and RoW

### China exports to ASEAN vs. rest of world

Index, 2010=100, sa, 3mma

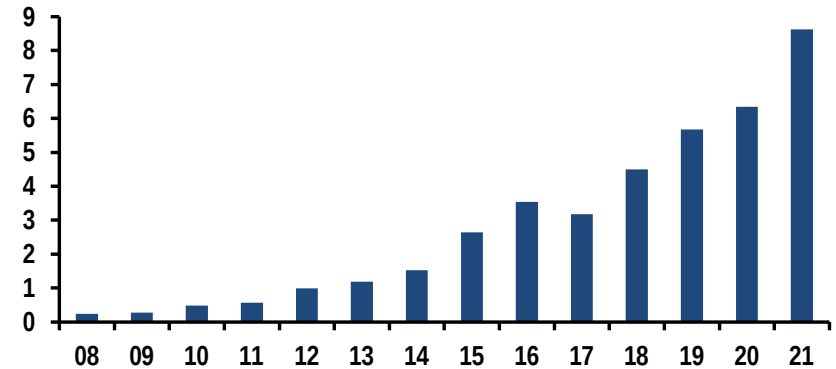


Source: China Customs, J.P. Morgan

## China ODI to ASEAN for manufacturing sector (USD billion)

### China ODI to ASEAN for manufacturing sector

US\$ billion

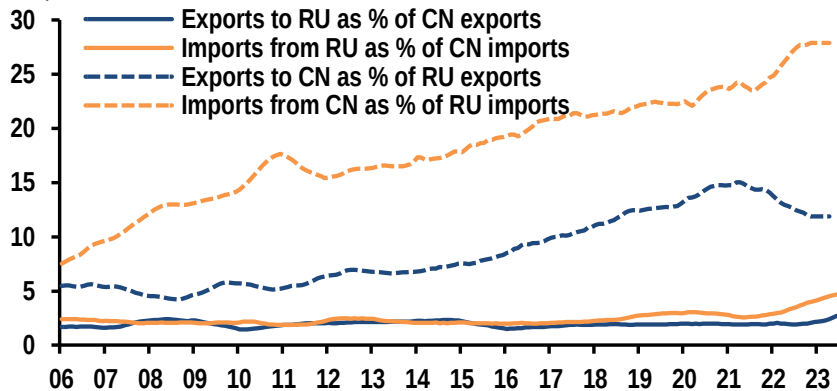


Source: China Ministry of Commerce, J.P. Morgan

## China-Russia bilateral trade dependence (% , 12mma)

### China and Russia bilateral trade dependence

%-pts, 12mma



Source: Haver, J.P. Morgan

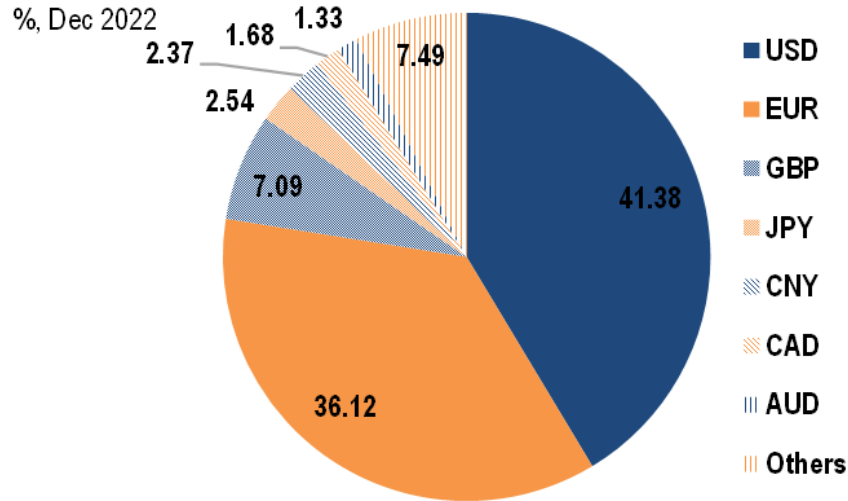
## Announcement of commodities contracts settled in non-USD

Date	Country	Comment	Currency
Sep-17	Venezuela	Venezuela moves to sell oil and other commodities in currencies other than the dollar	CNY, JPY, RUB, INR
Feb-22	China	Russia signs a 30-year gas contract to supply 10 Bcm/annum to China, settled in euros	EUR
Jul-22	Australia	Australian iron ore spot shipments settled in yuan	CNY
Jul-22	India	Russia seeks payment in UAE dirhams for oil exports to India	AED
Sep-22	China	Gazprom will shift gas contracts with China to be settled in rubles and yuan	CNY, RUB
Nov-22	Turkey	Turkey signs deal to pay 25% of its Russian natural gas imports in rubles, remainder in euros and dollars	RUB, EUR, USD
Nov-22	Ghana	Ghana's government is working on a new policy to buy oil products with gold	gold
Dec-22	China	China seeks to buy oil and gas in yuan	CNY
Jan-23	Saudi Arabia	Saudi Arabia will consider trading in currencies other than the US dollar	others
Jan-23	Egypt	Russia is considering selling wheat to Egypt in rubles	RUB
Feb-23	India	Indian refiners pay for most of their Russian oil in UAE dirhams	AED
Mar-23	China	China completes first yuan-settled LNG trade of 65,000 tons	CNY
Mar-23	Brazil	China, Brazil strike deal to trade in local currencies, rubles and reals	RUB, BRL

Sources, J.P. Morgan Commodities Research

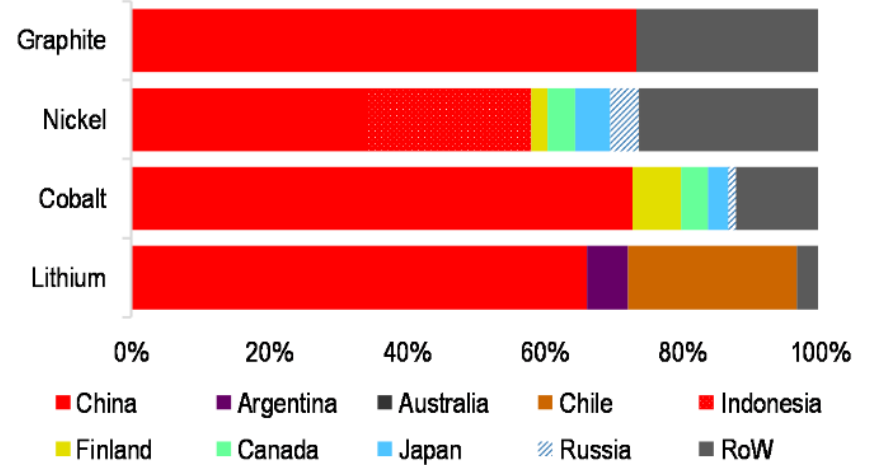
# Challenges ahead: Global supply chain relocation

Breakdown of global payment currency (Dec 2022)



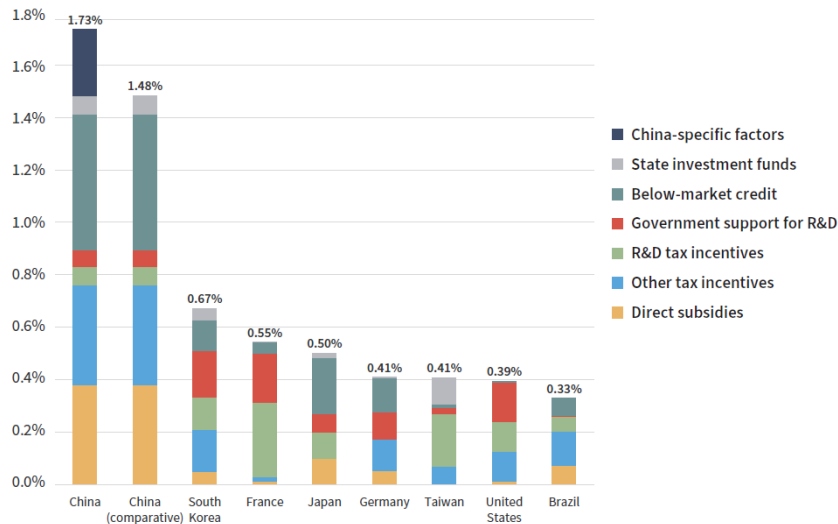
Source: TradeMap, J.P. Morgan

Share of global refining of battery metals by country (%)



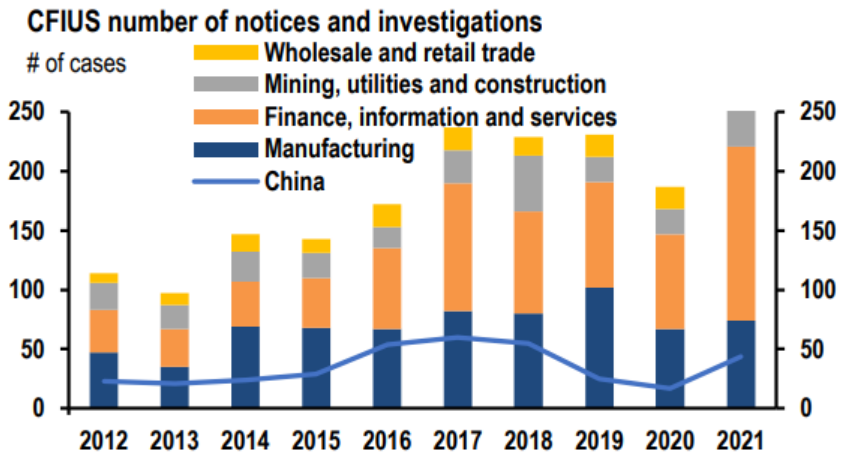
Note: China controls 97% of Indonesian processed nickel capacity  
Source: Wood Mackenzie

Industrial policy spending in key economies as % of GDP (2019)



Note: Estimates only include instruments with sufficient data for quantification. China estimates are conservative. Source: CSIS

US industrial policy and technology blockage



Source: CFIUS, J.P. Morgan

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